MARCH 1960

The Mortgage Banker

A look at the Sixties, the prospects and possibilities, at MBA's Chicago Conference. Scenes at the sessions, the Farm Loan Clinic and the YMAC's breakfast meeting.

in this issue — — — — — — — —

THE ECONOMIC BACKDROP IN 1960
FOR DOING A MORTGAGE BUSINESS
THE CASE FOR THE SINGLE AUDIT

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MBA CALENDAR

March 17-18, Mortgage Servicing Clinic, Mayflower Hotel, Washington, D. C.

April 4-5, Southern Mortgage Conference, Robert Meyer Hotel, Jacksonville, Florida

April 21-23, Western Mortgage Conference, Paradise and Jokake Inns, Phoenix

May 2-3, Eastern Mortgage Conference, Hotel Commodore, New York

May 19-20, Mortgage Servicing Clinic, Hotel Leamington, Minneapolis

June 19-25, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago.

June 26-July 2, School of Mortgage Banking, Course III, Northwestern University, Chicago.

July 24-30, School of Mortgage Banking, Course I, Stanford University, Stanford, California.

July 31-August 6, School of Mortgage Banking, Course II, Stanford University, Stanford, California.

October 3-6, 47th Annual Convention, Conrad Hilton Hotel, Chicago

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▶ ELSEWHERE: Urban renewal, its problems and prospects, will come in for a searching review and analysis April 6 and 7 when the third annual Building Industry Congress for Urban Renewal convenes in Washington in NAHB's National Housing Center. Herschel Greer of Nashville will be among the speakers. Relocation housing, recent trends in 221 building, why 221 financing is good business for the mortgage banker, building for the middle income market—these and a host of other aspects of urban renewal will all come in for critical review and analysis. It's a coming event that should hold the great interest for mortgage bankers looking ahead to a phase of financing that's sure to be far more important in the future than most of them appreciate today.

The Mortgage Banker

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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

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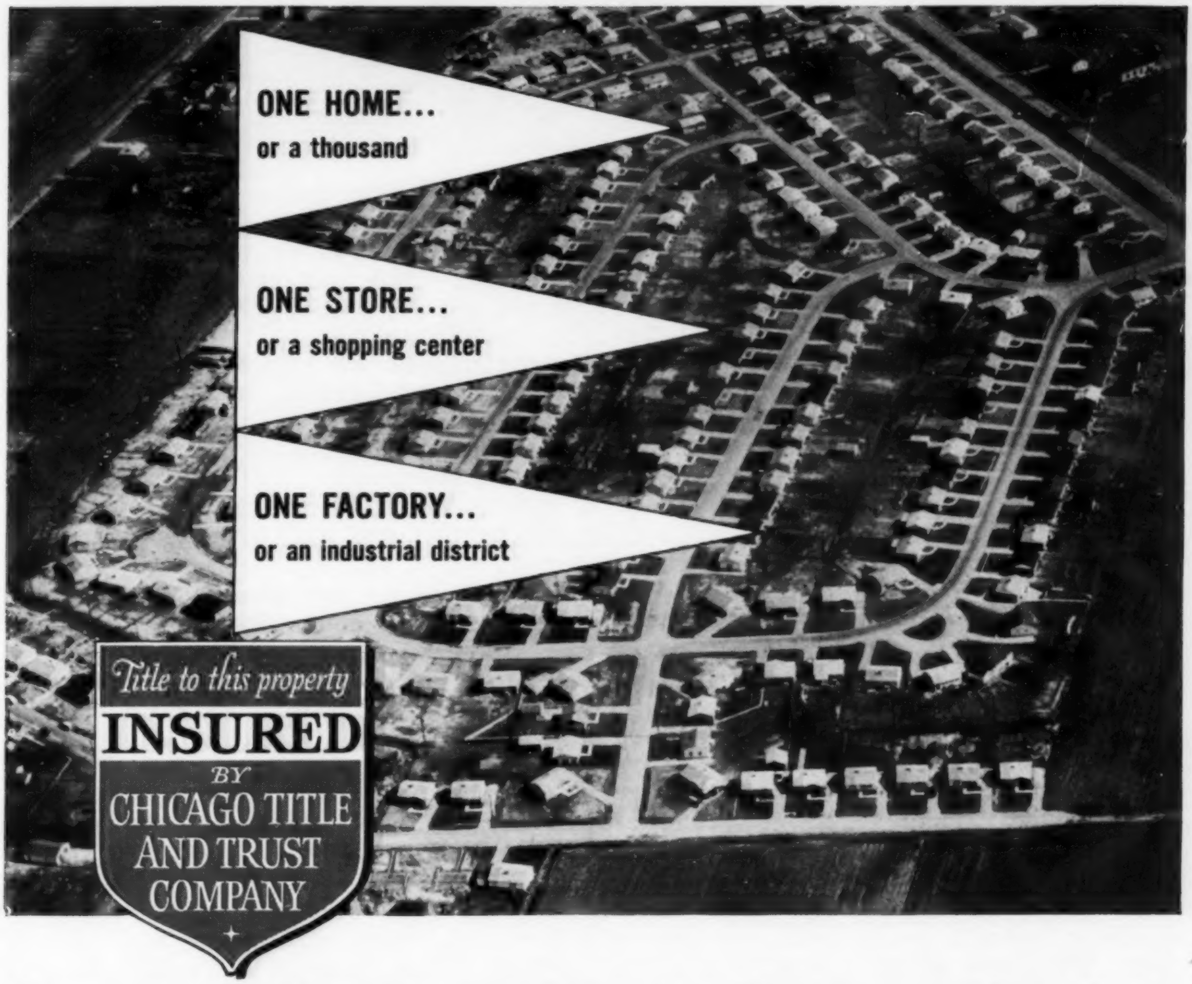

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NEWSCOPE

A short, short summary: As first quarter 1960 draws to a close, 1959's statistics haven't changed much but the sentiment has. At year-end, most authorities professed to see a continuation of tight money getting tighter, higher rates getting higher. But before the year was very far along, some areas of credit eased a bit, followed by a slight bounce-back, then some more relaxation. All this has been little felt in the mortgage market where year-end predictions of tight money through the first half still hold. No question about one thing, however: total funds available for mortgage lending in 1960 won't equal those of 1959. But here and there—notably what people said at the Chicago Conference—sentiment seems to have improved. Typical comments: "It's quiet" . . . "We're doing business—but could do a lot more" . . . "Last year was our biggest, we'll be satisfied with less this year and still have a good 1960."

Case of a Commitment: A prospective borrower got a commitment from a life company and paid the fee. The deal failed to materialize. The borrower sued for the return of the fee charging, among other things, that the contract lacked mutuality because of the vague language of the commitment letter. The life company, one of the biggest, said no. The case is before the court and a decision is expected in April. The local mortgage association had its attorneys intervene as "a friend of the court" setting forth that the language of the commitment was customary in mortgage lending, the procedure customary in the industry. It's only the second case of its kind. In the first, the commitment language and procedure were upheld.

Still on the up and up: It's prices of homes, and this year the average retail price will be nearly 4 per cent more than in 1959. So says the FHBB after a comprehensive survey. Home buyers will pay an average $18,365 for a new house, up 3.8 per cent from last year's average of $17,697. The 1950 average was $10,842.

The Board's considered estimate of 1960 production is 1,040,000 new non-farm one-to-four-family homes, down from last year's total of 1,181,000. The new homes will have a total value of $19.1 billion, down from $20.9. More: 1,020,000 one-to-four-family dwellings will be started this year, down from 1,144,000 in 1959. This 11 per cent cutback will have its greatest effect on home starts during the last quarter of the year. Total mortgage lending on new and existing homes will amount to $31.2 billion, down from the 1959 record of $32.5 billion. Of this year's total, lenders will get $19.4 billion of it from repayments of outstanding mortgages and $11.8 billion from new savings.

Bold and imaginative thinking and planning characterize the times. Example: MBA Vice President Robert Tharpe's proposal (page 42). Another: NAHB President Bartling's suggestion: "Our great political parties should formulate bold housing philosophies and spell them out in unequivocal terms. These philosophies should be given form and substance at the Cabinet level of our Government—a level where the economic and social voice of housing, in all its ramifications, may be heard on equal terms with those of commerce, agriculture, of labor, and of the Treasury. The problems of providing homes for a population that will number 214 million by 1970, the expansion of urban areas, and the growth of slums in the large cities, make it important that housing be managed at a Cabinet level."


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Quotes

Reflections of the World Today in Capsule Comments

WE GOT 55% IN 1959

The need for more capital to finance what the nation wants done becomes more pressing than ever—particularly for mortgage lending which is already taking about 55 per cent of all new capital. Said Dr. Roy L. Reierson, vice president and chief economist, Bankers Trust Company, New York:

"This . . . is the crux of the matter: how we are to allocate the limited amounts of investment funds so as to maximize our capacity for economic growth. Solid and sustainable growth in output and economic well-being comes primarily from investment in productive facilities, which make possible a rising trend of labor productivity. This has been the source of our rising standard of living over the decades. In the years since World War II, however, the bulk of new funds in the capital markets (close to 55 per cent) have been channeled into mortgages, and a much lesser share (about 30 per cent) into corporate securities, which are essentially for the financing of a growing plant and equipment. It thus seems pertinent to ask whether a disproportionately large share of available investment capital is moving into residential and other private building and into types of public projects which do not contribute to rapid economic growth, and whether too little is being directed into channels which lead to greater expansion of our truly productive resources.

"Assuredly, public policy must make a choice. We can, if we wish, continue to facilitate a high level of investment in housing and other projects which add to our material comforts but do not enhance our capacity for growth; we can continue to rely upon bank credit in an attempt to relieve ourselves of the need for increasing our savings, thereby adding to the inflationary pressures already abundant in our economy. If we choose this course, however, we should not be surprised to find the rate of economic expansion in the United States continuing to lag behind that of other countries, nor should we be astonished to see the United States dollar deteriorating in foreign markets. If, on the other hand, we are truly serious in our aim to reinvigorate our economy, then we must face reality and recognize the role of saving, investing, and interest rates in encouraging solid economic growth."

PEGGED RATES WON'T WORK

Not for the nation's fiscal system—and, as mortgage bankers have long tried to explain, not for the mortgage lending economy as well. Said William McChesney Martin, Jr., chairman of the board of the Federal Reserve System:

"In early 1960 the economy continues to show a sharp pick-up from the period of hesitation caused by the steel strike. Economic activity is vigorous and prices are reasonably stable. Nevertheless, it is possible we may encounter a renewed spiral in the upward movement of prices, or, perhaps, find that the underlying strength in the situation is not so great as most observers now feel.

"In these circumstances, all of us are faced with a particularly sensitive problem of maintaining prosperity by endeavoring to prevent either a renewal of inflationary pressures or development of deflationary tendencies.

". . . A word about what monetary policy can and cannot do. It cannot effectively peg interest rates, it cannot prevent monopoly. It cannot assure that the financial needs of all socially desirable activities are met without intervention by government.

It cannot be relied upon to cover Federal deficits. Alone, it certainly cannot assure either stability or growth.

"What a correct monetary policy can do is to foster confidence in the dollar, so that our people can and will save and invest in the future with reasonable assurance that their plans will not be frustrated by irresponsible changes in the value of money."

FEAR OF INFLATION

The fear of inflation can be, and is being demonstrated to be, a very bad psychological thing—not in a class with the product itself but bad nevertheless. Said Carrol M. Shanks, president of Prudential Insurance Company

"Consider the effect of inflation on our savings habits. One would normally expect that as a country becomes wealthier its ability to save and to produce capital goods would improve. The result would be a progressive stepping up in the growth rate. But in the United States the proportion of disposable personal income saved has declined from 13 per cent in the 1920s to only 9 per cent today. Similarly, the proportion of our real gross national product devoted to plant and equipment and to housing has declined from 17-18 per cent in the '20s to about 14 per cent at present. What has produced this striking change in our national savings habit?

"I think it has been due largely to a growing fear of inflation. Creeping inflation, and the expectation that it will continue, destroys the incentive to save. Consumers become more interested in speculation, more concerned with protecting their own purchasing power, more intent on current consumption, than with providing the savings indispensable for enlarging and improving our capital plant."

FIGHT FOR A SOUND DOLLAR

Said Walter E. Hoadley, Jr., treasurer, Armstrong Cork Co.:

"Fight every day for a sound dollar. This means accepting responsibility for sound economic spending policies as a very personal matter. We are the ones to lose if the Russian economic attack succeeds and our dollar money system fails.

"The first essential for a sound dol-

lar is progressively more efficient production of goods and services whatever our business is. This means emphasis upon improving methods, better quality, and the challenge of meeting competition where it really counts—in doing a better job and not just in bidding for volume without consideration of return on investment. There must be good profits, earned from hard, efficient work, to provide the funds for still better new machinery and equipment. Government must protect the public against unfair practices, but not harass business to the point of inefficiency.

"The second essential for a sound dollar is to insist that governments at all levels live within their means. There is no limit to human wants—nor will there ever be—but there are definite limits as to what can be provided to meet these wants and how much people are willing to pay for them. We must stop kidding ourselves that if the money comes from government, someone else pays for it. The entire tax progression beyond the first income tax bracket provides little more than 12 per cent of all federal tax revenue; only 2 per cent of the government's income comes from brackets over 50 per cent. Our national debt is now roughly $290 billion. In addition, there are nearly $100 billion in c.o.d.'s for future highways, housing and similar projects—PLUS $350 billion in pension and benefit payments to be made to civilian employees of the government and veterans. This is a total of $750 billion to be paid if nothing new is added. It should be clear that commitments for an enormous amount of government spending already have been made.

"A third essential is a tax policy which fosters initiative rather than stifles it. As seen, there is little income left to be taxed in the so-called upper brackets. We must not allow taxes to be used to keep people from working hard, investing in new ideas, and generally providing the spark which makes our system work.

"A fourth essential for a sound dollar is a monetary policy to help stabilize the purchasing power of the dollar. While the Federal Reserve cannot fight inflation alone, it can and does do a heroic job trying to resist excessive demands for private and public credit by general control measures. The Reserve authorities need encouragement, not discouragement in doing their work.

"Fifth, there must be confidence at home and abroad that economic policies in our country will not be changed toward excessive government spending and more inflation. It is not enough that the dollar be sound today—which it most certainly is—but people everywhere must have reasonable assurance that it will remain sound indefinitely so they can make longer-range plans with confidence.

"The major test of the 1960's is to keep a sound dollar. Meeting this test won't be easy, but it can be done—if we really want a sound dollar and are prepared to fight for it along the lines just mentioned.

"Many other tests are ahead:

"*The Business Cycle*—In all probability the 1960's will be marked by two or three recessions. The severity will be in direct relation to the extent of the preceding boom."

WE'RE SHORT THIS MONEY

Everyone knows we're short quite a bit of money this year to do all the things the country wants to do and to build all the houses that the demand calls for. But just how much of the green stuff is lacking? Answer: Just over a billion dollars according to this estimate

Wanted and needed: More than one billion dollars to meet the shortage of capital that, the experts say, will be serious this year. They have been saying that over and over again, but the investment house of Salomon Bros. & Hutzler pinpoints the actual shortage of capital.

The anticipated demand for funds will require about $27.7 billion during the year. A $1.1 billion deficiency in supply will amount to 4 per cent of the total.

The following is the estimates of the accumulation of long-term funds in 1960 by a selected group of savers, and estimates of the demand for capital from private borrowers, States, municipalities, and public revenue projects:

Supply of Long-Term Funds

	Billions
Life Insurance Companies	$ 4.9
Mutual Savings Banks	1.3
Savings and Loan Associations	6.6
Corporate Pension Funds (1)	3.7
State and Municipal Retirement Pension Funds	1.9
Fire and Casualty Insurance Companies	1.3
Other Long-Term Funds (2)	6.9
Net Supply of Long-Term Funds	$26.6

(1) Not funded with insurance companies.

(2) Available for investment in real estate mortgages, tax-exempt, and corporate securities by individuals, personal trusts, non-corporate pension and retirement funds, foreign accounts, non-profit organizations, and other long-term investors not included in the above categories.

Demand for Long-Term Funds

	Billions
Real Estate Mortgage Financing (3)	$14.9
State, Municipal and Public Revenue Authority Financing (4)	3.9
Corporate Financing* (5)	8.9
Demand for Long-Term Funds	$27.7
Indicated Deficiency of Long-Term Funds in 1960	$ 1.1

(3) Based on estimated starts of 1,150,000 housing units, and a gross demand for mortgage funds of $27.8 billion. From this gross figure estimated amortizations and repayments of $10.8 billion, Government Agency purchases of $0.8 billion, and commercial bank acquisitions of $1.3 billion have been deducted.

(4) Based on estimated gross borrowings (excluding refundings) of $7.6 billion, from which estimated maturities and sinking fund purchases of $3.1 billion and $0.6 billion of commercial bank acquisitions have been deducted.

*Including foreign and International Bank borrowings in the United States.

(5) Based on estimated gross flotations

of $8.6 billion of domestic bonds, $0.5 billion of foreign and International Bank issues, and $2.8 billion of preferred and common shares, from which estimated maturities, sinking fund and other redemptions of $3.0 billion have been deducted.

Increases in savings accounts in commercial banks have not been counted in the supply of long-term investment funds, because such deposits are only partially invested in the types of obligations that make up the demand categories listed. As an offset, commercial bank purchases of mortgages and tax-exempt securities have been deducted from the estimates of demand from these sources.

Treasury financing is excluded. Nevertheless, Treasury debt operations could have a major impact during the year on the level of interest rates, as well as the present yield structure for Government securities.

Although currently its debt-management program is limited by law and by market conditions to maturities of five years or less, Congress may act to eliminate or modify the 4¼ per cent interest rate ceiling for bonds.

Should the Treasury be relieved of this restriction, it will certainly offer advance refundings to holders of some of its outstanding issues, and possibly sell limited amounts of long-term bonds for cash as well.

"Shifts in our international relations, Federal legislation, and possible new labor stoppages also may make necessary reconsideration of these estimates at a later date," the survey says. "Although some current forecasts predict a slow-down in the second half of the year, the upward movement in the economy is expected to continue at least during the first six months. Some increase in the price level is likely to occur.

"No let-up in the demand for bank credit in an already tight money market is anticipated, nor is there any sign of any early relaxation of Federal Reserve restrictive policy."

UNION LIKES FHA AND VA'S

Slowly but surely new buyers of mortgages are coming to appreciate the advantages of this type of investment—but the emphasis still is on the "slowly." After a decade of rather intensive effort to demonstrate to pension trusts the appeal which mortgages should have for them, some progress has been made but the road ahead stretches far into the future before any real volume is likely to be attained.

But here and there one encounters real success stories in introducing mortgages to purchasers who have not heretofore been interested in them. One such instance is what the International Brotherhood of Electrical Workers, AFL-CIO, has done. Here is a Union that has bought about $80,000,000 of VA and FHA loans for their pension and insurance funds.

In addition, it holds about $20,000,000 in military housing loans. The Union has made more than 325 VA and FHA loans in the Chicago area, totaling more than $5,000,000, within the past three years, according to Maurice A. Pollak, executive vice president, Draper and Kramer, Inc., Chicago. The Union prefers to keep its mortgages around $15,000 and some of the VAs have been made with no down-payment. Joseph D. Keenan, secretary of the IBEW, is enthusiastic about the mortgage investment program.

"This is one of the best things we've done. We have made 12,000 VA and FHA insured loans throughout the country and have been forced to foreclose on only about seven.

"We have had the satisfaction of being able to help many young people with growing families to buy a home and at the same time provide employment for our members."

Keenan said the mortgage loans, made at steadily rising interest rates, now yield the IBEW an average return of 4¾ per cent.

Yields will be higher on current VA and FHA insured loans, which now carry a 5¼ to 5¾ per cent interest rate, and are being bought for the IBEW at 2 to 6 points discount.

Since embarking on a large-scale residential mortgage program five years ago, the IBEW has built up its VA and FHA insured loan accounts until it now approximates almost 50 per cent of the $170 million pension and insurance fund.

▶ **REAL BIG:** That FNMA is a big undertaking is well recognized but just how big is a little startling even to those most familiar with its operations. The figure that usually sets people back on their heels is the grand total of holdings — FNMA holdings at the end of last year were $5,582,000,000 of residential mortgages. That is everything, holdings under the special assistance programs, secondary mortgage acquisitions and the holdings in the management and liquidation portfolios. Total acquisitions last year were $1,908,000,000, largest in FNMA history — bringing secondary mortgage and special assistance operations to $3,618,000,000.

▶ **LEFT ON THE PAD:** For picturesque language from a place where picturesque language is certainly not uncommon, this month's prize can go to one of the minority in the House Banking and Currency Housing Subcommittee report on the Rains Bill: "We suspect that some place along the line this (Rains) bill will be put to sleep quietly and that it won't even reach the desk of the President. We think this presently misguided effort to orbit Federal spending will be allowed to frizzle out on the pad."

THE MONEY THAT'S NEEDED TO MAKE THE MORTGAGES NEEDED

By Miles L. Colean

"The most serious and the most continuously pressing economic and political problem of the new decade" will be, in Mr. Colean's view, the problem of getting enough savings to finance the expansion and growth which it is evident we will have in the immediate years ahead. Demand will be massive and for residential real estate financing there will be the continuing problem of getting the money for all the mortgages that will be here to be made.

WE CAN be sure of one or two things about the mortgage credit situation in the years ahead: That the *demands* for credit will be enormous and that we shall be under increasing strain to supply enough credit to meet these demands as the decade advances. Can we, or how shall we be able to, meet the demands for an increasing volume of credit to build the houses, factories, stores, and all the other types of privately financed structures, along with those for vast amounts of credit needed for all the other private and governmental requirements we shall encounter over the next decade?

The demand figures are staggering. Population will increase in the range of 26 million to 43 million. The number of nonfarm households will increase in the range of 7.7 to 10.5 million. To take care of them means the building of four to five new Chicagos. It means more than this because these Chicagos won't be new. Besides all the additional facilities that will have to be financed, vast amounts will be needed to combat deterioration and to replace existing facilities that are no longer suitable for the era we are entering.

On the assumption of no greater a rate of improvement in the standard of living in real terms than we have had over the past decade, I have estimated that total outlays for new construction alone during the 1960's will come to $670 billion. This figure includes major additions and alterations, but it does not include expenditures for minor improvements to, or the repair and maintenance of, our existing stock of structures. Nor does it include the cost of land for the new structures, for which money must also be found. To give a few individual items, new dwelling units (exclusive of land) would, according to my estimates, take $185 billion, factories, $40 billion and commercial buildings of all types, $50 billion. Altogether, new private construction would easily take $465 billion. In addition, new government construction of all kinds and at all levels, which also to a great extent is bought on credit, will probably come to $200 billion. Maintenance and repair would increase these figures by at least a third. These figures are in dollars of 1959 value.

Although we are interested in financing real estate in all its ramifications, we have to bear in mind that there are many other claimants for funds. Producers' durable equipment,

business inventories, consumers' durable goods must also be provided for. Last year the net addition to outstanding credit for all purposes came to a little over $61 billion. Although the total net credit additions this year will be less—probably in the neighborhood of $54 billion—because of the lower Treasury requirements, we shall soon again be back to the $60 billion figure. By the end of the decade, if net increases in credit continue to be close to their present relation to the gross national product, we shall want each year something between $80 billion and $85 billion. In addition, of course, there will be the financing done through equity investment in the private sector and by the direct expenditure of tax money in the public area. I am unable to estimate this total package.

The demand, however, is obviously massive. To meet it will require an equivalent volume of private savings, bank credit, and tax revenue. The mix will vary from year to year. Since I assume that the tax load does not permit of much expansion and that it is advisable to keep the supply of bank credit within a fairly narrow range, the main dependence will be on private savings. This will certainly be true of real estate financing which looks largely to institutionalized savings for its sources of credit.

How are we to get these savings? That I suspect will be the most serious and the most continuously pressing economic and political problem of the new decade.

What sort of formula is involved? First, international peace is a prerequisite. With a major war, all bets are off for this and for probably a good many future decades. Even a small war, like the Korean embroglio, would badly strain the possibilities. An uncertain peace, such as we have had since 1953, will cause strain enough if the armament burden continues to rise as it has during recent years. Real peace, however, would be a different matter. Peace is never costless; but it is conceivable that in time its present cost might be reduced. Think what might be done, for example, if the armament burden could be cut in half during the next five years. The resulting $150 billion that might go into the investment stream over a ten-year period would in itself go far to assure that the problem of the supply of savings could be solved. Peace in the world, therefore, must be a primary objective.

The second requirement is a stable dollar. On the basis of simple arithmetic it is certain that, if the dollar continues to lose value, all the calculations would have to be revised upward. Since, moreover, when the dollar does lose value, the loss comes out of accumulated savings, the difficulty of reaching a balance between the demand and the supply of funds would be increased. But the effect is more serious than this. The fact or the expectation of a decline in the dollar in itself greatly stimulates the demand for credit at the same time as it discourages current saving. It dissipates income in consumption and speculation. It strikes at the very roots of growth. Consequently, inflation, like war, has to be avoided if we are to have the supply of funds that our prospective financing requirements indicate.

There are other things that would be helpful in assuring a desirable supply of credit. Primary among these are a more efficient use of our resources through eliminating wasteful labor practices and eliminating subsidies for producing commodities that are not wanted as well as payments for not producing. Payments for unneeded labor or unneeded production do not make for real growth. Again, the availability for true investment purposes, either private or public, of amounts equivalent to those of present waste would aid materially in meeting our problem. So also would a tax system that was clearly designed to induce growth rather than to encourage high corporate living and overemphasis on debt financing.

If we can assume that we can make real progress in establishing peaceful international relations, in avoiding inflation, and increasing the efficiency of our economy—a big order I admit—we should have no grave difficulty in meeting impending requirements for credit in total. This does not necessarily imply, however, that the mortgage sector will encounter no greater difficulty than the rest. On the contrary, it may well have greater difficulty.

This decade will see: a population increase of from 26 to 43 million people, a non-farm household gain of from 7.7 to 10.5 million

The total outstanding mortgage debt on residential and commercial property is in the neighborhood of $184 billion—the largest single category of debt except that of the federal government. The net increase last year was close to $24 billion. Of both total outstandings and average annual increment mortgages on one- to four-family structures amounts to about three-fourths. By 1970, outstanding home mortgage debt may well be pushing the $300 billion level and total mortgage debt, $375 billion. These figures are based on several recent projections and are in line with the private construction estimates previously offered. While I disclaim them as positive forecasts, they at least are suggestive of the magnitude of the mortgage credit requirement.

Where will such an amount of money come from? Today mortgage lending is a highly institutionalized process. All but about 12 to 15 per cent of it, moreover, comes from four

classes of institutions — savings and loan associations, life insurance companies, mutual savings banks and commercial banks. Of these, only savings and loan associations may be confidently counted on to maintain their recent rate of increase in mortgage holdings. During the new decade, the others can be expected to show declines in respect to their own mortgage investments as a ratio of the total. The difference must be made up elsewhere, and despite the most optimistic estimates of savings and loan growth, an increasing part of it will probably have to come from outside the present principal institutional sources. That there is a trend in this direction is evidenced by data prepared by the Department of Commerce for the past several years. The outside sources I refer to are individuals, pension funds, endowments, and other trust funds.

Existing facilities for tapping these sources are primitive. One of the challenges of the decade will be to develop better facilities. The possibilities are great. The potential of direct individual investment in mortgages is a thoroughly unexplored quantity but the growth of the mutual security investment funds suggests that if suitable media were available, the results would be rewarding. About the pension and endowment areas there can be no question. Asset growth here is at rate exceeding that of any of the principal institutional groups I have mentioned.

Some new institutional inventiveness is in order. A few encouraging efforts are under way; but more needs to be done. The original concept of private national mortgage associations, which was discarded in the legislation of 1948, might be dusted off and looked over for its possible applicability. The regulated investment company or mutual fund in the securities field offers another promising model that could, with some changes in the Internal Revenue Act, be readily adopted to the purpose.

▶ U. S. CREDIT IN HOUSING: Government credit support for housing in a time of inflation may seriously interfere with over-all economic stability, according to Leo Grebler, professor of real estate and urban land economics at the University of California, and formerly on the staff of the President's Council of Economic Advisers. His study, Housing Issues in Economic Stabilization Policy, has been released.

Reviewing the recent history of developments in the housing field, Grebler notes several occasions where federal credit aids designed to encourage residential construction were in conflict with economic stabilization policies.

As an example, the experience of early 1955 is cited, "when the market for new homes was beginning to show clearly the signs of threatening oversupply. . . . An attempt to maintain the current level of construction would have increased the upward pressures on building costs, land values, and house prices. Higher prices, in turn, would have canceled much if not all of the reduction in financing costs and would have defeated the purpose of the credit liberalization in addition to kindling the fires of inflation." Selective credit controls on FHA and VA loans at that time helped to restore balance between housing demand and supply and to curb price increases. In addition, these controls reinforced the policy of general monetary restraints.

There is a difference in the time dimension of national housing objectives and economic stabilization policy, Grebler notes. "Because the annual volume of residential construction is exceedingly small in relation to the total housing stock, at best 3 per cent, national housing objectives can only be attained over a very long time; as the failure of the veterans' emergency housing program of 1946-1947 demonstrated, there are no short cuts. . . . Economic stabilization policies, on the other hand, necessarily have a much shorter time horizon." If government credit support for housing is tightened during upswings in the business cycle, market demand for housing will merely be postponed, not lost permanently. This is not true for goods and services with shorter consumption periods, he adds.

While it is often supposed that government policy makers have used housebuilding as the "balance wheel of the economy" to counteract general economic fluctuations, the record since 1948 does not bear this out. "On the whole, residential construction expenditures usually conform positively to business fluctuations with a lead."

However, supply of housing credit has tended to fluctuate in a countercyclical manner. "When there was slack in the economy at large and the supply of funds was ample relative to demand, credit became more readily available for home building and home purchase . . . inflexible interest ceilings on government-underwritten loans have reinforced these market influences." But because of time lags between the initiation of housing financing and actual construction, these factors, Grebler notes, have produced "less than counter-cyclical results."

Government credit insurance covers the most volatile part of the mortgage market. During the 1948-1957 period, the annual amount of government-underwritten loans ranged from $3.6 to $10.2 billion. This compares with a range of $7.9 to $18.6 billion for conventional home mortgages.

This decade will see: enough expansion and building to equal four to five new Chicagos . . . growth well calculated to pose problems never seen before

The Single Audit—Let's

THE net yield, after deducting all expenses, determines to a great extent the acceptability of one type investment when compared with another. This is a particularly pertinent subject at the present time from the standpoint of those interested in the mortgage business. With yields on many types of investments now at 30-year highs and with interest rates on FHA and VA mortgages frozen at artificially low levels, the mortgage loan is more and more finding itself in an unfavorable position from a yield standpoint.

In former days, mortgage loans were relatively inexpensive to handle. Usually, there were only two payments per year per loan. The accounting for these two payments and checking taxes and hazard insurance represented the total servicing—unless and until a loan went into default. The situation now is entirely different. With the advent of the monthly payment loan and the inauguration of the FHA and VA loan plans, the servicing of mortgage loans now involves a multiplicity of details including many varied types of forms and the interpretation of governmental regulations by the score. In fact, it really requires the employment of experts in many different fields if one is to be sure that proper servicing is given to the present-day mortgage portfolio.

It stands to reason that these changes would bring about increased costs in the servicing of mortgage loans. Fortunately, however, mortgage loan people have been alert to the problem and many forward steps have been taken to reduce costs. Most of these steps revolve around the elimination of duplication of effort and the simplifying of procedures. In this connection, tribute should be paid to the Mortgage Bankers Association of America and its various committees in effectively pointing up the problem and suggesting means and methods of meeting it. Through servicing clinics, through committee meetings and negotiations with the affected government agencies, many forward-looking steps have been taken. It will be sufficient to emphasize the point if we briefly reflect on the improvements in the handling of hazard insurance policies, hazard insurance losses, taxes and accounting procedures.

One further matter now under consideration and which has received considerable attention by MBA is that of auditing of servicing agents by investors. It is admitted that auditing procedures of investors consume a great amount of time not only on the part of the investor but of the servicing agent. It must be kept in mind that the servicing agent is visited by auditors of each of its investors; and each time an auditor arrives, it necessarily disrupts the operation of the servicing agent. Not only must the members of his staff give courteous help and attention to the auditor but desk space must be provided and regular routines must be held in abeyance until the audit is completed. In addition, many servicing agents will be visited by auditors of the FHA from time to time.

From the standpoint of the investor, if he is going to a really good job, he must have a trained staff of accountants constantly visiting his servicing agents. They must be specialists in their field. A peculiar problem also presents itself in that each investor confines its audit to only one segment of the books and business of the servicing agent—that is, the segment involving that particular investor. This, in itself, involves some tedious reconciling procedures. The question has been raised by many at various times as to whether there is not a better way to do this job.

The pertinent suggestion which came to the forefront was that all servicing agents are regularly audited by their CPA and that if this CPA could furnish an appropriate certificate to each investor, a major portion of the effort of the investor and the inconvenience to the servicing agent could be avoided. The point is made that the CPA is going to audit the books of the servicing agent in the regular course of business and why could not the duplication of effort be avoided just as we have eliminated such duplication in other phases of mortgage servicing. Certainly, there would be no question about the honesty, integrity and ability of a recognized CPA. We rely upon their certificates in many other phases of our investment work and there is no reason why we should not be willing to rely upon their certificates for this purpose. Stop and think if this could be done, the savings to all would be tremendous. Let us now explore the possibilities of bringing this about.

The one big problem is to get all investors to agree on a form of certificate to be furnished by the CPA which would meet the requirements of those investors. This problem probably arises from the fact that different investors audit their servicing agents in varying degrees of detail. Since

Give It a Fair Trial

Speaking of cutting costs in mortgage loan operations, as about everyone in mortgage lending is doing, the single audit could well be the real Giant Step Forward. Anyone in the business can see at once what tremendous savings would result. Here is the case for the single audit and it is a convincing one. Further, it's backed up by a record of successful experience—the experience of an investor. The single audit seems to be something that would greatly benefit both principal and correspondent, and deserves the most careful consideration of both. A full exploration of the possibility of the single audit is a project of this year's Research Committee headed by Lon Worth Crow.

By EHNEY A. CAMP, JR.

Vice President and Treasurer, Liberty National Life Insurance Company, Birmingham

they are accustomed to auditing certain records and receiving certain types of information, the natural tendency is to expect that same type of information from the CPA.

In the case of our company, we decided to do a little experimenting. First, we made a careful study of what our auditors had been checking when auditing the accounts of a servicing agent because we felt we should not require the CPA to give us any more information than we were already maintaining under our present system. To summarize, we found that, in the main, we were (a) balancing our escrow funds against the bank accounts, (b) ascertaining that the bank accounts were maintained in such form as to preserve the benefits of FDIC insurance, (c) verifying of principal balances and instalment due dates between our records and those of the servicing agent, (d) test checking hazard insurance procedures and (e) test checking tax procedures. These were the major things we were doing so we reached the conclusion that if the CPA auditing the servicing agent did this for us, certainly we would be just as well off as under the old system. In studying the problem, we reached the conclusion that the main thing in which we really had an interest was to be sure we were repaid our money with interest and that all other matters involved only incidental details. Therefore, it occurred to us that we should keep an open mind and be as flexible as possible on these matters of detail as long as we felt every reasonable effort was being taken to insure the integrity of our investment.

At that point, we prepared a certificate embodying the above points. That certificate reads as follows:

In connection with our regular annual examination of the accounts and records of____________ as of ____________ we wish to report as follows:

We examined escrow funds on loans serviced by that company. All escrow funds applicable to your loans shown by the company's records as being on hand on________ were reconciled to the balances shown in the bank statements covering custodial funds deposited for your loans, and the amounts shown on deposit were confirmed by direct correspondence with the depositories.

It is our opinion that the escrow accounts are being maintained in accordance with Section 330.4 of

the rules and regulations of the Federal Deposit Insurance Corporation which relates to deposits in custodian accounts; and that this servicer is exercising due care and diligence with respect to the records he maintains of escrow funds.

We reviewed the comparison made by the servicer of the principal balances and installment due dates between your records and the records of the servicer as of December 31, 19___. It is our opinion that any variations determined to exist have been correctly adjusted where necessary on the records of the servicer.

We reviewed a representative number of hazard insurance policies and have determined that they are in insurance companies on your approved list, are currently in force, are in such amounts as to cover the indebtedness, are in the name of the current property owner and contain a mortgage clause covering your interest.

We reviewed the procedures followed by the servicer in verifying payment of taxes applicable to your loans and satisfied ourselves that proper procedures necessary to substantiate the accuracy of the tax certificate heretofore furnished to you are followed.

It will be noted that a portion of this certificate is similar to that required by the FHA from those servicing agents authorized to commingle funds.

We then submitted this form of certificate to our servicing agents with the request that they discuss it with their CPAs and determine how much extra effort would be involved in submitting this certificate to us signed by the CPA. We made it clear to our servicing agents that we were conducting an experiment and we would like to have their assistance and cooperation in studying this highly interesting problem. The cooperation we received from our servicing agents was most gratifying and we are indebted to them for helping us learn something about this problem.

In a few cases, the CPA indicated that additional cost would be involved in furnishing the certificate. In a very few cases, the suggested amount of additional cost was exorbitant and it was clear that there was some misunderstanding on the part of either the servicing agent or the CPA. At that point, we made a further explanation of just what we had in mind. We pointed out that if the CPA was to make a complete audit of the accounts of the servicing agent that he would naturally have to audit our segment of those accounts. Surely, the CPA would check the escrow funds and, if so, should be able to certify without any extra effort that our escrow funds are properly accounted for. In most of the cases, however, we were advised that the additional work involved would be nominal and the extra cost, if any, would also be nominal. Based upon this study between our Company and the servicing agents over a period of many months, we then decided that we would use this system as a part of our regular procedures.

Does this mean that we shall never audit the accounts of any of our servicing agents? It does not. It only means that we shall now be able to devote our attention to those situations where we feel we can do the most good. Certainly, when we establish a new servicing account, we need plenty of time to visit this new servicing agent and explain our system, our procedures and our requirements. We would be hopeful we could make some intelligent suggestions to this servicing agent which might be of assistance to him not only in connection with our business but his entire portfolio. In addition, where the delinquencies of a servicing agent appear to be abnormal, if we note a laxness on the part of the servicing agent, if reports are late and if procedures seem to be breaking down, then our auditing staff will be readily available to devote attention to that servicing agent. I feel that our efforts will be much more fruitful under this type of plan and will enable us to render a better service to those

(Continued on page 35)

Outdated, Outmoded?

Is the duplicate audit, in effect, one of those outmoded facets of mortgage lending that belongs to a day that has passed, to a time when the origination side of the partnership had not attained the maturity it has now? In the answer may be found the key to one of the greatest cost-cutting methods available. Says Mr. Camp:

". . . all servicing agents are regularly audited by their CPA and . . . if this CPA could furnish an appropriate certificate to each investor, a major portion of the effort of the investor and the inconvenience to the servicing agent could be avoided. The point is made that the CPA is going to audit the books of the servicing agent in the regular course of business and why could not the duplication of effort be avoided just as we have eliminated such duplication in other phases of mortgage servicing? Stop and think . . . if this could be done, the saving to all would be tremendous.

"The one big problem is to get all investors to agree on a form of certificate to be furnished by the CPA which would meet the requirements of those investors . . ."

President's Page

MORTGAGE BANKING'S FUTURE MAY REST IN PROPOSALS BEING MADE TODAY

THERE seems to be little question of the necessity of obtaining in some manner more mortgage money than now appears to be in sight through present facilities for financing housing needs in the Sixties. That point was emphasized at both our NYU and SMU Senior Executives Conferences, and it has been mentioned often in the many forecasts for housing in the new decade. This, plus the present rather modest decline in home building — attributed unfortunately by some solely to "tight money" — has triggered a rash of proposals to "solve the problem." Some of them appear to have considerable merit if the means or facilities suggested are properly organized, with reasonable assurances that they would be operated on sound lines in harmony with our free market economy. And it would certainly be an inexcusably hard-headed attitude to assume that a new facility or vehicle could not and would not be so organized and operated. Consider the wonderful record of the FHA and FNMA programs!

B. B. Bass

It is our duty and responsibility to study all such proposals seriously, whether by leaders in government or interested trade associations, and render such assistance as we can in reaching the best possible solution.

Like it or not—and I think we will like it—there most likely are going to be some changes in existing facilities and perhaps, in addition, a brand new facility. We will best serve the public's interest as well as our own by keeping ourselves fully informed and being completely objective in our thinking.

First, I strongly urge a study of Sen. Sparkman's address, "The Challenge of the 1960's to the Mortgage Banker," given at our Conference in Chicago on March 1. It is no ordinary document, I can assure you, and we are deeply indebted to Sen. Sparkman for preparing it for us on that occasion. Also read the National Association of Home Builders' proposal for a central mortgage bank and Bob Tharpe's talk at the Southern California MBA in which he makes some suggestions for the long-term development of mortgage banking. Both of these are in the formative stages of development.

A few words of caution are in order, however. Let's not let the glamour and romance of new ideas which "are going to cure all our problems" blind us to the economic facts of life, which really are the basic "causes" of most of our present problems. Let's not let any hopes or dreams for the distant future cause us to relax our efforts to effect immediate correction of obvious and easily remedied faults in our present facilities. Actually, all parties concerned—home builders, mortgage bankers, and home buyers—have done amazingly well with present facilities. The three things which have prevented present facilities from doing an almost completely satisfactory job, will also keep *any* facility from doing a job much better, if any. I refer to (1) inflation and the fear of more inflation which discourages savings in general and the investing of those savings dollars that are accumulated in fixed income investments, whether mortgages or bonds secured by mortgages as proposed in some new facilities; (2) *inflexible* interest rate ceilings on FHA and VA loans which freeze a large volume of these potential loans out of the competition for money when natural market forces yields above the FHA and VA ceilings; and (3) the unrealistic and unreasonable penalty the Congress still forces on the builder or seller of a house financed with an FHA or VA loan, to pay the loan discount for the borrower and give him a below-market interest rate.

Congress should act now to restore confidence throughout the world in its intentions and in its ability to protect the present value of our dollar, to provide and support a market interest rate on FHA and VA loans, and completely remove without delay the penalty it has forced on builders to subsidize a below-market interest rate for FHA and VA borrowers.

B B Bass -

PRESIDENT

The World of Mortgage I

Will this seemingly insatiable demand for capital continue right on as so many at year-end were predicting would be the case? Not so, said Dr. Jules I. Bogen, Professor of Finance, in his forecast of interest rates in 1960. There will be a decline of around 25 per cent this year. Reasons: The end of Treasury deficit financing, a drop of mortgage borrowing by about $4 billion. And the reason for the decline in mortgage borrowing is not because there is any less demand for homes, but because the money isn't there to finance them. There are many great changes taking place in the American economy which will affect the capital markets for years to come and one is that American corporations are developing their own internal sources of financing.

Dr. Bogen predicts a decline in the demand for new funds in the capital market of 25 per cent or so in 1960. He stated his feeling that there was also going to be a basic change in the capital market during the coming year. He made this statement, he said, "without conditioning it on a decline in business activity." The factors behind this basic change and 25 per cent predicted decline, Dr. Bogen gave as follows:

▶ The end of Treasury deficit financing. This he felt would be responsible for the largest part of the decline. Last year, the Federal Government and its agencies borrowed $10 billion, while this year, the Treasury will probably cut its publicly held debt. The Treasury will retire securities on balance in the first half of this year, when the great flood of corporate tax receipts come in based on the upturn in corporate profits that took place in 1959. Moreover, Treasury trust funds which actually lost money in 1959 will be gaining a billion and a half or two billion dollars this year. These funds will go into Treasury securities so that a small deficit is not inconsistent with net repayment of debt by the U. S. Treasury. Thus, even if the treasury agencies do borrow another billion dollars, which is quite probable, the treasury as far as the capital market goes will probably be even or perhaps be a net repayer of debt in 1960.

▶ A decrease in mortgage borrowing of about $4 billion, to a level of about $16 billion in 1960. This decrease is expected to account for the rest of the predicted decline in the 1960 demand for money. This decline in mortgage borrowing will occur because the quantity of money available to people wanting to buy homes will be reduced. It will not be due to a reduction in the demand for homes.

Dr. Bogen said one of the great changes taking place in American business which he feels will affect the capital market for many years to come is the fact that American corporations are developing their own internal sources of financing. This development should be watched closely, according to Dr. Bogen, because it is going to affect the overall supply and demand for funds and the trend of interest rates.

In discussing this new development, Dr. Bogen mentioned the following points:

▶ The biggest of these internal sources of financing is depreciation. As recently as 1946, the total depreciation allowance of all business corporations were only $4½ billion. This year they will run around $22 billion. Big investments in new facilities and the use of the more rapid depreciation authorized by the Revenue Act of 1954, because of the tax benefits they give, is tending to make depreciation larger and larger. This flow of depreciation money of unprecedented magnitude will be augmented by corporate profits, which are also expected to reach an all time record peak.

Corporate and non-corporate plant and equipment expenditures for 1960 will be about $37 billion, predicted Dr. Bogen. This is very close to the 1957 peak and $5 billion above the 1959 total plant and equipment figure provided by the Department of Commerce.

Dr. Bogen also expects inventory spending to be very heavy, especially in the first half of 1960. This inventory building for the whole of 1960 could be in the neighborhood of $7 or $8 billion.

The projected increases in plant and equipment, and inventory spending in 1960 will not offset the decline in Treasury and mortgage borrowing however, asserted Dr. Bogen. They will not because the funds needed for this spending will be acquired largely by the record cash flow of business will experience in 1960, and not by borrowing.

e Lending in 1960

Since dividends tend to go up slowly lagging behind profit increases, record retained earnings will result in 1960. Thus, from internal sources alone, American corporations are expected to gather approximately $35 billion with which to finance their plant and equipment, and inventory purchases.

The conclusion is that the drop in government borrowing and the drop in mortgage borrowing in 1960 will be offset only to a small extent and not to a significant extent by an increase in business borrowing.

In conclusion, Dr. Bogen gave the outlook for interest rates in 1960 as follows:

1. The upward pressure on interest rates will lessen in 1960 due to a sharp drop in the total demand for funds.

2. A softening of long-term interest rates could develop as the year progresses because of this reduced demand for funds.

3. In the absence of a change in business conditions interest rates will not decline sharply; rather any decline will be slow and moderate because of the big potential demand for mortgage money overhanging the market.

4. Short term interest rates can be expected to increase. Further pressure on the short-term end of the market will be exerted by corporations and commercial banks selling government obligations.

5. A business downturn in the second half year would push the whole structure of interest rates, short and long, to a lower level before the end of 1960.

To get a professional and scientific insight into the underlying factors which exert the most influence in mortgage lending and investing, each year since 1947 a group of MBA members have journeyed to New York University's Graduate School of Business Administration to hear these factors explored and interpreted by recognized authorities.

Since the country has been experiencing the most restricted credit conditions almost within memory, with rates rising to ever-increasing peaks, it was natural that this 1960 Senior Executives Conference would be slanted to "mortgage banking in an era of money stringency."

What was the consensus of conditions, of the general prospects, of the possibility of more money for mortgage investment or, looked at another way, the possibility for less money? On hand to report all developments was Leo M. Loll, Jr., instructor in banking and finance at the School. His summary was that, to use his own words, the outlook was "dismal, indeed."

"The economy, for the second time in a few short years, was in the grasp of a severe credit shortage. To make matters even worse, the tight credit situation was most severe in the mortgage market. Small wonder that the 1960 Conference, when it convened, had a record attendance."

"The conclusions drawn by the majority of the Conference speakers were not happy conclusions for the mortgage bankers. Time after time, speakers referred to the mortgage fund prospects for 1960 in discouraging terms. Time after time the bankers were told of the great demand for homes only to be reminded that the funds to build these homes would not be forthcoming—unless mortgages become attractive enough as investments to divert funds away from alternative investment areas."

So, with Mr. Loll as our guide, let us go back to NYU for the best of the Conference.

A Let Up in Capital Demand

There will be no relief from the acute credit stringency which now envelops the economy until and unless there is a marked decline in the demand for funds — which means until there is a decrease in the demand for money to expand and grow. The rise in interest rates and the scarcity of funds are due simply to the tremendous pressure for money to grow on, said Dean Joseph H. Taggart of the School. And even since Dean Taggart spoke, the situation he mentioned was materializing and the demand for funds by business and industry has shown some decrease from what was anticipated at year-end. Result: Some decline in interest rates during the opening weeks of 1960.

"During the past year," Dr. Taggart said, "the most acute credit stringency of our generation has developed in the United States." The underlying cause was a record peacetime demand for funds which overwhelmed the capital market. This record demand resulted in a net increase in the outstanding debt which was almost *one fifth larger* than that of 1955, the previous record year.

Each of the five major classes of borrowers registered large debt increases in 1959. Two of these five groups of borrowers, the mortgage borrowers and the U. S. Treasury, expanded to a much greater extent than in previous recent years while three of the five borrowing groups did not expand as much as they had in some recent years. These three were

- Consumer borrowing was heavy, but did not expand as much as in 1955.
- State and local government borrowing was a little less than in 1958, which was the peak year for such financing.
- Business firm borrowing was also moderately below the record volume of the prosperous years of 1955-1957 when peak plant and equipment spending proved a strong stimulus to borrowing.

"Thus, the two segments of the demand for capital that caused total demand for funds to set a record level in 1959 were mortgage and U. S. Treasury borrowing," Dean Taggart said.

The rise of over $19 billion in outstanding mortgage debt for the year was more than 20% larger than the increase in 1955, the previous record year for mortgage borrowing, and almost one-third larger than last year. Expanding on this, he indicated the following reasons for the great increase in mortgage borrowing in 1959:

- Economic recovery and prosperity swelled the demand for homes and other structures and explained also an increase in the average price in homes purchased.
- Financing was facilitated by heavy commitments to take up mortgages which had been arranged during the recession period with financial institutions.

Dean Taggart noted next, the second type of borrowing which increased rapidly in 1959: that of the United States Treasury and its agencies. The Federal Government had net borrowing of $10 billion in 1959, as compared with $7½ billion in 1958 and with only $400 million in 1957, before the anti-recession fiscal policy was adopted.

"The fact then, that the large-scale deficit financing by the treasury coincided with heavy mortgage, business and consumer borrowing, greatly intensified the credit stringency last year. This stringency could have been avoided, only by a corresponding expansion in the supply of funds through established institutional channels. Actually, the supply of loanable funds through the usual institutional channels was smaller than the year before."

Three of the four leading classes of savings institutions reported their funds increased more in 1959 than they did in 1958. The fourth class of savings institutions, however, the mutual savings banks, had a decline in the year's deposit gain so sharp that it offset the increase of the other three. This decline resulted from the very keen competition mutual savings banks faced from savings and loan associations and direct investments in government and tax exempt obligations.

Turning next to commercial banks, Dean Taggart observed that the cost and availability of funds from the commercial banking system is largely determined by the credit policy followed by the Federal Reserve authorities. As evidence of this, Dean Taggart cited the fact that in 1958, when an aggressive easy money policy was being pursued, the banking system provided over $17 billion of the new funds through expansion of its loans and investments. By contrast, in 1959 when a tight money policy was in force, the system expanded loans and investments by only a little over $6 billion.

During the second half of 1959, the Reserve authorities kept the net deficiency of reserves of member firms around the $500 million level. This naturally, put pressure on the commercial banks to liquidate U. S. government obligations from their portfolios in order to offset their expansion of loans. As a result, $6 billion in government securities were liquidated to partially offset an increase in $11 billion in new commercial bank loans.

The liquidation by the banking system of $6 billion in government securities, which came at the same time as the offerings of large new issues of short term obligations to finance the government deficit, explains why short-term interest rates are higher than long term interest rates, Dean Taggart said.

As an illustration of this phenomenon, Taggart called the bankers attention to two issues put out by the Federal Land Banks last year. One, a ten year issue, yielded 5⅛ per cent; the other, a one year issue, yielded 5.4 per cent. Aggravating the whole situation, Taggart asserted, is the fact that the Treasury cannot issue securities of over five-year maturity at more than 4¼ per cent interest so they must resort to the short term money market for funds.

How a record demand for mortgage funds can be met temporarily, despite a lag in the inflow of institu-

tional savings was clearly illustrated in 1959, Dean Taggart said. During that year he noted:

- Life insurance companies increased their mortgage lending by reducing their corporate bond purchases.
- Savings and loan associations provided additional funds for mortgage lending aided by increased borrowing from Federal Home Loan Banks.
- Mutual savings banks and commercial banks sold substantial amounts of U. S. Governments and other investments in order to obtain funds for taking up their previous mortgage commitments.
- Large amounts of mortgages were also absorbed by Fanny May and by individuals. For example, Dean Taggart specified, acquisitions of bonds and mortgages by individual investors exceeded $11 billion in 1959, as compared to only $2 billion the year before.

"It is clear, however," Taggart observed, "that financial institutions cannot count indefinitely upon the proceeds of the sale of other investments or upon borrowing from secondary credit agencies to take up mortgages in amounts substantially in excess of the inflow of savings.

"Institutional lenders today are reluctant to enter into new mortgage commitments and the difficulties of financing have already led to a curtailment in the volume of home building.

"Relief from the acute credit stringency that now exists," Dean Taggart concluded, "can come only from a substantial decline in the total demand for funds; a material increase in the supply of savings and bank funds; or both."

Money Control Slows Growth

No segment of the American economy has failed to feel, and be influenced by, galloping interest rates, but are they high by historical standards, are they at all-time peaks? No, said Dr. Woodlief Thomas, economic adviser to the Board of Governors of the Federal Reserve System. They are not as high as the World War I peak or during the twenties or the levels prevailing before 1890. Can and should interest rates be stabilized? Artificial stabilization is uneconomc and self-defeating and not in the best interest of the economy. Can Congress control interest rates? Congress has done a poor job in the areas where it has tried to do so.

Dr. Thomas attributes the controversey over interest rates to two broad underlying causes: The first is the development of a complex combination of factors that have caused very wide variations in interest rates in recent years. The second is the lack of general understanding of the factors behind interest rate variations and of the role of interest rates in the economy.

By way of explaining the function of interest rates and the causes of their variations, Dr. Thomas presented the following points:

1. Interest rates are prices, and thus are the result of the forces of supply and demand. In the case of interest rates, the supply is the volume of saving, current and past, available for lending at any given time; the demand is the total of all credit wanted by borrowers of various sorts at that time. Interest rates rise or fall, whenever demands for borrowing exceed or fall below the supply of savings available for lending at the then existing level of interest rates.

2. Interest rates serve the function of maintaining equilibrium between the forces of supply and demand and of helping to determine the allocation of available supplies among competing demands. In order for interest rates to perform this important economic function, it is essential that they be permitted to vary flexibly, so as to reflect differences in costs, risks and institutional habits, as well as differences in demand and supply.

Dr. Thomas next posed a series of questions, which he finds invariably arise when this broad topic of interest rates is under discussion. Several of these questions and Dr. Thomas's ideas are:

1. How high are interest rates?

Historically the present level of interest rates is not particularly high. Although yields on high grade long term bonds have nearly doubled since their 1946 low point, they are not as high as the peaks of World War I or of the 1920's or the levels prevailing before 1890. Also, long term rates in the United States are still somewhat below comparable rates in most other countries where free money markets now prevail.

2. Can and should interest rates be stabilized?

Any such artificial stability would interfere with the functioning of interest as an important regulator and contributor to the maintenance of equilibrium in the economy. It would also interfere with the allocative function of interest in distributing resources among various claimants. More fundamentally, such stability could not be obtained without creation of money to meet all borrowing demands, irrespective of the availability of savings. Any such policy would disturb the savings and investment relationship, would threaten to diminish the purchasing power of savings and income, would destroy confidence in the value of the currency, and in the end would interfere with rather than contribute to the maintenance of sustainable economic growth.

3. Can Congress control interest rates by legislation?

One favorite means of attempting to control interest rates by legislation is to place ceilings on rates for particular purposes, such as the maximum rate that can be paid by the Treasury on securities of over five-year maturity or the maximum that can be charged by a lender on a guaranteed mortgage. Such mandatory ceilings have no effect if they are well above the prevailing market rate for such credit instruments. If, however, the market rate is above the ceiling rate, the effect is simply to make it impossible to borrow funds in the

market through those particular media. Attempts to control the level or the structure of interest rates by direct governmental action is likely to meet with failure and to have disastrous consequences. It is essential to keep in mind that governmental activities are not the only factors, and generally not the dominant ones, in money and credit markets, or in the processes of saving and investment—private activities are much more important.

In conclusion, Dr. Thomas said, "Attempts to interfere with the normal functioning of free markets will be more likely to create elements of eventual instability than to contribute to sustainable growth."

The 1960 Conference at NYU, largest yet, more than 225 attending.

Boom in People

One thing said at the NYU Conference about which there could be no argument — maybe the one thing about which there was complete agreement — was the fact that the nation's population is — yes, we'll use the word just once more — exploding. It is, and it means changed viewpoints, new market conceptions, etc.

Above, at one of the NYU functions: Saul Klaman, MBA Vice President Robert Tharpe, John A. Gilliland, Dean Rowland Collins, Raymond T. O'Keefe, Dr. Roger A. Murray and MBA President B. B. Bass. Below, Dean Joseph Taggart, Carton A. Stallard, Dr. Paul Nadler, Addison K. Barry, and Carey Winston.

Dr. Philip M. Hauser of the University of Chicago said that the decade of the '60's will in a large measure reflect the same kind of developments on the demographic side that we observed throughout the postwar period, namely, the continuation of our national resurgence in population growth and the maintenance of our postwar boom in birthrate level.

"This is not to say that we will not experience fluctuations within this secular growth trend."

Next, trying his hand at prognostication, Dr. Hauser indicated that it is reasonably safe to say that the 18th decennial census will record a population of over 180 million. "This means," he indicated, "that we shall have had an increase of population during the 1950's of around 29 million, the largest absolute increase we have ever experienced. Should our population resurgence in growth continue, we can expect a population of about 214 million by the end of the present decade, an increment of about 34 million people. These demographic changes, coupled with the fact that the national income will experience a similar kind of growth, will have a very direct effect on the mortgage banking industry."

Next, Dr. Hauser referred to the population shifts taking place inside the United States. These shifts are characterized by an acceleration and concentration of people in a relatively small number of areas. As evidence of this, he pointed to the recent census estimates which indicate that in the first half of this past decade our metropolitan areas absorbed 97 per cent of the total population growth of the United States. Dr. Hauser commented that this trend was a manifestation of the fact that the "clumping" of people and economic activities represents the most efficient producer of consumer units we have yet devised. This "clumping," he claimed, underpins the high level of living we have achieved as a nation.

The companion effort to the MBA-NYU Conference is the MBA-SMU Conference held a few days later. Some of the observations and predictions from that meeting appeared in these pages last month. This was the first time at SMU when certificates were awarded for attending all five Conferences. Left above, Dean Laurence Fleck and President B. B. Bass give Dr. Arthur A. Smith his and, right, the same ceremony as A. H. Cadwallader, III, of San Antonio gets his certificate. Below left, some who were there: In conference at the Conference, E. H. Haley, Jr., Des Moines; Aubrey M. Costa, Dallas; President Bass and Jerry Frey, Dallas. Right, Alvin H. Soniat, Ft. Worth; Robert Drye, Houston and Texas MBA president; NYU Dean Emeritus Rowland Collins and M. J. Mittenthal, Dallas.

Turning next to the more statistical aspects of his talk, he noted the following main points for the bankers:

1. The '60's will uniquely be the decade of the explosive growth of the late teenager and the young married.

2. Between 1950 and 1960, persons 20 to 24 years of age, the most critical age from the standpoint of marriage and household formation, decreased by almost 3 per cent. That the absolute number decreased in the midst of an explosive population growth reflects the low birth rate of the preceding generation. Between 1960 and 1970, however, persons 20 to 24 years of age will increase by over 53 per cent. One decade, a decrease of 3 per cent; the adjoining decade—the one that lies ahead—an increase of 53 per cent.

"The postwar baby has come of age, and the new crop is here for you to harvest," Dr. Hauser said.

Mortgage Debt Will Double

So much has been said and written about the sensational sixties, about the vast new markets to be tapped, the tremendous business to be done, etc., that it would be surprising if the average man hasn't become a little surfeited with the predictions. Be that as it may, said Dr. Robert A. Kavesh, the statistical evidence plainly points to about 14 million homes built during the sixties at an aggregate cost of between $240 and $250 billion. That's a lot of financing and it is going to mean a doubling of the mortgage debt to around $300 billion.

Dr. Kavesh pointed to the surprising records etched by the housing industry on the economic panorama of the last decade. Few prophets, he claimed, would have dared to predict at its inception that we would see the construction of something like 12 million homes, that we would have spent on these homes roughly $170 billion, or that we would have witnessed a tripling of residential mortgage debt during these short ten years.

Surprising has been the fact that housing today can be regarded as one of our major built-in economic stabilizers, effectively carrying the gross national product forward during recession, but consistently sloughing off slightly during a period of business improvement.

Next, alluding to the certainty of the many uncertainties, and surprises

waiting in our economic future, Dr. Kavesh introduced a qualification which he felt would likely spell a great many challenges for the housing industry during the decade it so recently entered. This qualifying factor was that the backlog of unsatisfied demand, the way it existed in the 1950's at least, would not be there in the 1960's. Stipulating that demand for houses is a reflection of population and income potential, Kavesh noted that the future economic health of the country will be a function of how many people work, coupled with how efficiently or how effectively they work.

Beginning with a population projection, the speaker at this juncture, started verbal construction of a model of the economy as it might appear in 1970.

"With population projections completed, we have some notion of the labor force and the participation rate," remarked Kavesh. "Once we know the number of hours worked per week by the average person, we can multiply these hours by 52 and obtain the aggregate hours per year our economy will work," Kavesh continued. Combining productivity with hours provides us with this global concept of gross national product, he indicated. Turning to specific calculations, Kavesh advanced the following information for inspection:

1. Although estimates for the growth of the gross national product during the 1960's ranged from 3 to 6 per cent, he personally endorsed an average rate of slightly over 4 per cent a year.
2. By 1970, he expected to see the gross national product reach the level of roughly ¾ of a trillion dollars.
3. By 1970, corporate earnings on a pre-tax basis could be as high as $75 to $80 billion per year.
4. By 1970, average family income after taxes would likely range between $7,000 and $8,000 a year. This figure was regarded as particularly significant by Kavesh since it could effect the type of housing demanded in 1970.

Kavesh drew this conclusion:

From 1960 to 1964, he looks for an average level of starts at the rate of 1.3 to 1.4 million units per year. Later in the decade this level will increase to 1.4 to 1.5 million starts per year and may attain a peak of 1.7 million units before the end of the decade.

In total, Kavesh sees 14 million homes constructed in the 1960s at an aggregate dollar cost of between $240 to $250 billion. During this same 10 year period, he expects residential mortgage debt to double bringing the figure close to $300 billion.

By way of conclusion, Kavesh warned that certain danger areas should be watched with caution during the 1960s. Too much debt, inflation, possible unemployment, or the lack of adequate incentives, any of these could drastically alter the ultimate total figures on the asset side of our 1960-1970 economic balance sheet Dr. Kavesh concluded.

Mortgages Must Have Yield

With the outlook for commercial bank mortgage activity something less than promising and the prospect for mutual savings bank purchases not quite up to last year, what about the life companies? Dr. George T. Conklin, Jr., adjunct professor of finance, believes that the percentage of funds will depend almost entirely on the investment merits of what the competition has to offer — translated, that means that the life companies will buy where they can get the best deal. Mortgages will have to have it, yield-wise, to get the funds.

How much money will insurance companies have to invest in total?

How much of this money will be invested in the mortgage area? Before attempting to cover these two questions, Dr. Conklin briefly sketched the life insurance industry picture in the mortgage investment area as follows:

- The life insurance industry represents the largest single pool of capital in the long-term market. Its total exceeds $100 billion. Its ownership of over $38 billion in mortgages makes it second only to savings and loan associations in the amount of money invested in mortgages.
- The life insurance industry has roughly 35 per cent of its assets in mortgages. It is presently not aggressively investing in this area.
- The industry is currently aggressively investing in the commercial loan area, that is loans on apartment buildings, office buildings, warehouses, etc.

Reverting back to the question, Dr. Conklin noted the following: For the last 4 or 5 years, the annual increment of funds coming into the life insurance industry for new investments has been slightly declining. For the next 5 years or so, this trend is expected to continue but at a slower rate. Currently, the annual increment of new investment funds is approximately $6 billion.

Since 1956, the percentage of life insurance assets held in mortgages has ranged from 34.2 per cent to 34.8 per cent. The latest figure, 1959 (in September) was 34.5 per cent, he noted. Since 1956, he remarked, there has been less of a disposition to put money into mortgages, and of the increase of assets in 1957, 43 per cent went into the increase in the mortgage account; 1958, 29 per cent; 1959, approximately 31 per cent.

The percentage of funds which will move into the mortgage market in 1960 will depend entirely upon the investment merits of the alternative outlets available to the investor, Dr. Conklin asserted. If mortgages become outstandingly attractive, there is no reason why the percentage of funds invested could not be increased drastically above the current level. On the other hand, if mortgage terms are unattractive, there is no reason why insurance companies could not reduce the flow of mortgage funds drastically.

Now that mortgages are no longer outstandingly attractive as investments, but are on the basis of competing, Dr. Conklin concluded, their future success in attracting funds will depend upon their ability to compete with other types of investments.

Banks and Mortgage Loans

Anent all we have been hearing about the commercial banks becoming more and more a factor in mortgage lending, what about 1960, will they have more money for the mortgage market, for mortgage investment? No, said Dr. Paul S. Nadler, assistant professor of economics of Rutgers University, who thinks that there will be exceptions; but, generally speaking, don't expect the banks to increase their mortgage investments in 1960.

By his own admission Dr. Paul Nadler was the session's most pessimistic speaker. He began by summing up his feelings on commercial banks as a source of mortgage money as follows:

"There will be pockets, certain areas, certain banks, that are going to increase their mortgage money over the course of the 1960's, but for the banking system as a whole, I am extremely doubtful that they will be able to increase their mortgage money investments to a great extent."

In explaining the basis for his pessimism, Nadler covered the following points:

▶ The volume of savings deposits of commercial banks determine how much they can invest in mortgages. The law in most cases limits their mortgage investments to €0 per cent or less of their savings deposits. Currently, the banks have been averaging about 40 per cent.

At present, Nadler asserted, savings in the economy are not growing as rapidly as might be expected and with commercial banks at a competitive disadvantage in competing for savings the picture looks bleak.

▶ Banks really become generous mortgage lenders only when credit is extremely easy. When credit is tight the alternative investments of consumer credit and business loans are preferable. Consumer credit loans are desirable because of the attractive rate of interest. Business loans are actively sought because they create deposits which in turn result in compensating balances. These balances coupled with the interest charged on the loan provide a higher return to the banks than do mortgages.

In the 1960's, Nadler asserted, it is unlikely that we will have "easy money" to the extent it existed in 1953-54. Thus banks will unlikely be able to go out and buy as many mortgages as they purchased in many past periods.

More specifically, Nadler predicted, "If the commercial banks are able to maintain their present position in the savings picture they will have an increase of $26 billion in mortgage money during the whole decade. If they are not able to maintain their savings position, they will have an increase of $10 billion over the decade. My own feeling," Paul Nadler continued, "is that barring a change in our institutional structure, in our regulations, the less optimistic forecast is the correct one."

The speaker next directed attention to five reasons why he felt at least some commercial banks should be able to increase their mortgage investments in the future.

These five factors were:

1. Inability of some banks, because of increasing competition, to use up

their available funds in the consumer credit and business loan areas.

2. The realization on the part of some bankers that they must supply the mortgage money needs of their local communities or their communities will not continue to grow.

3. The pressing need for better bank asset allocation brought about by the increasing costs of bank operation.

4. The realization on the part of many bankers that they must provide better services and pay higher rates of interest if they are to compete successfully for savings deposits. One service approach here would be inplant banking, Nadler noted.

5. New laws just enacted. For example:

a. The Housing Act of 1959 which exempted FHA loans from the law that restricts bank investment in mortgages to 60 per cent of savings deposits. VA mortgages, of course, had previously been exempted from this list.

b. The legislation in 1959 which exempted construction loans from the 60 per cent limit mentioned above.

c. The new Certified Agency Program which speeds the issuing of FHA mortgage commitments.

d. The authorization of banks to lend the equivalent of 75 per cent of the appraised value on a mortgage instead of 66⅔ per cent.

"Nevertheless," Dr. Paul Nadler concluded, "barring a change in our legislation and our regulations, the commercial banks will not be the source of mortgage money in the 1960's that they may have been in the past."

Have Same Money as in 1959

What about mutual savings banks, what sort of market factor are they going to be in the field of mortgage investment this year? For the answer to that, we turn to the authority, Saul B. Klaman, director of research of the National Association of Mutual Savings Banks. It is his opinion that they will continue to invest the bulk of their funds in mortgages, both FHA and conventional, but not the same amount they did in 1959. The volume will be about 10 per cent less and net, after re-payments, about 20 per cent less. But despite this, these investors should end up the year with about 66 per cent of their assets in mortgages, as against 64 per cent in 1959.

All things considered, Mr. Klaman said, it is reasonable to expect that savings banks will invest the bulk of their funds in mortgages—chiefly FHA and conventional—but not the entire amount as in 1959. On a gross basis, he suggested a volume about 10 per cent less than in 1959 and net after repayments about 20 per cent less. The relatively lower investment compared with last year on a net rather than gross basis reflects merely the same dollar changes applied to different base levels of activity.

"If these estimates come close to being realized, savings banks will have increased their proportion of assets in mortgages by the end of 1960 to 66 per cent from 64 per cent in 1959," Mr. Klaman concluded.

Mr. Klaman said that, "The behavior of mutual savings banks in the nation's capital markets has at times varied significantly from that of other financial institutions, and has changed in different periods of similar economic circumstances."

The current period of credit stringency finds savings banks again reacting differently than in past periods as reflected in the changing pattern of their investment activities.

To begin with, Mr. Klaman observed, the 1959 savings bank deposit inflows of \$1.2 billion were only about half the record 1958 inflow. However, during 1959, Mr. Klaman related, FHA mortgage flows were maintained at the mid-1958 peak and for the year as a whole considerably exceeded the 1958 total. At the same time, he indicated overall gross and net mortgage flows were reduced from the 1958 volume and savings banks were net sellers of corporate securities for the first year since 1955. Completing the picture for 1959, he pointed out that VA mortgage flows declined much earlier and faster during the present period of credit restraint than the 1956-57 period.

Overall mortgage acquisitions of mutual savings banks have been unusually large relative to resources since the end of World War II, he asserted. This was clearly evidenced by the fact that \$20.5 billion (or 90 per cent) out of the \$22 billion increase in savings bank assets during that 14 year period were used to acquire mortgages.

Looking to the future, Mr. Klaman observed:

That nation's mutual savings banks are entering the 1960's with their mortgage holdings at a record 64 per cent of assets.

Savings banks are not as anxious for mortgages now as they were when

portfolios were much smaller. Nevertheless, there is still considerable room for mortgage expansion. There is nothing holy about the current 64 per cent ratio of savings bank mortgage holdings to assets. Under appropriate conditions an expansion to 70 per cent and even 75 per cent could develop in the decade ahead.

The likelihood of a gradually increasing proportion of mortgage holdings is greater than a static or declining one. The increase is likely to be at a slower rate, however, than in the decade of the Fifties.

Overall, savings banks may have just about as much money to invest in 1960 as in 1959. Investments in mortgages are likely to be smaller, however. Commitments have already been reduced from peak 1958 levels and the uncertainty about the nature of future Treasury offerings has limited the offering of new commitments.

Credo for Mortgage Bankers

Want to enlarge the market for loans? Then the way to do it, said Dr. Roger F. Murray of Columbia, is to do a lot of things not ordinarily associated with such an objective — things such as push for a substantial budget surplus, support credit restraints, avoid proposals for shoring up mortgage prices with Fannie May money. In short, said Dr. Murray, it is as much a matter of general support of economic stability as anything else.

"In view of the highly efficient manner in which the mortgage market has functioned to finance the fabulous volume of postwar construction," Dr. Murray said, "it is perhaps surprising to observe that, in a sense, the market is narrower today than it was 30 years ago after the construction boom of the 1920's."

"The market is narrower in the sense that five groups of financial intermediaries currently hold about 80 per cent of the outstanding mortgage debt." These are savings and loan associations, life insurance companies, mutual savings banks, government lending agencies and commercial banks."

Commenting on the need to broaden the mortgage market, Dr. Murray indicated several worthwhile prospects which might be attracted into the market. These prospects and some of Dr. Murray's comments concerning them are given below:

▶ *Personal Trusts Departments:* Surveys indicate estimated holdings of $1.5 billion of nonfarm residential mortgages in 1939 had dropped to less than $700 million by 1958.

▶ *Corporate Pension Funds:* Noninsured pension funds are likely candidates for participation in the mortgage market. They may add as much as $3.7 billion to their resources in 1960.

▶ *State and Local Government Retirement Systems:* The retirement systems of state and local governments are more promising prospects. By the close of 1960, they should hold almost $20 billion in assets. Because they are generally not allowed to buy equities, only about 5 per cent of their new money is not available for fixed income investments.

▶ *Individuals and Others:* There is another somewhat miscellaneous category of "individuals and all others" to be considered as a prospect. This includes nonprofit organizations, educational endowment funds and just plain individuals.

Commenting on ways to "enlarge" the mortgage market as contrasted to broadening the market, Dr. Murray concluded:

"A mortgage banker interested in enlarging the mortgage market during the next decade can logically support credit restraint and a substantial budgetary surplus.

"He can refrain from supporting proposals to shore up mortgage prices with new appropriations for Fannie May."

"He can refrain from joining in the chorus of complaints against any restrictive policy which has a restrictive effect upon his activities."

"In short, he can support every soundly conceived effort to achieve economic stability and to suppress inflationary pressures knowing that, if these efforts succeed, savers will make growing amounts available to the capital markets for fixed-dollar investments such as mortgages."

Need New Mortgage Sources

Sometime, in some way, methods are going to be found to open up new types of investors for mortgage loans. During the decade of the sixties when there is every possibility that the traditional sources of mortgage funds won't have the money to invest that they had during the fifties, the problem becomes more acute, said Dr. G. Rowland Collins, dean emeritus of the School.

"In the decade which just closed," said Dr. Collins, "the flow of capital funds into a large and important segment of the mortgage market, namely, the government underwritten market has been plagued by instability. Financially speaking, that instability has been dramatic, frequently very surprising, often paradoxical and sometimes downright murky."

To emphasize his point Dr. Collins alluded to the fact that during the last decade housing starts have bounced back and forth between a tight money top and a minimal level held to be politically desirable. Next, with amusement Dr. Collins referred to the annual changes in housing bills, the numerous administrative actions by government housing agencies, and other government interventions which sought to restrain these bursts or surges in residential mortgage financing and to set a stop-loss on annual starts at a minimal figure. Looking ahead, he wondered if perhaps the rosy glow of projected economic possibilities painted with such daring by some analysts have not allowed many mortgage bankers to go a little soft in thinking about the capital formation and investments needed to implement these projections.

"We are all pretty much agreed," he continued, "that the downturn in residential housing that became pronounced in October, 1959 really reflected the decrease in the funds flowing into mortgage investment rather than any definite falling off in the buying demand for homes. Similarly, the expected decline in starts in the current year will be the result of the scarcity of mortgage money rather than any general weakening of a buying demand for homes."

In support of this point, Collins cited statistical evidence that the public is attaching more and more importance to residential housing. Specifically, he indicated, the amount being spent in residential areas on new construction is rapidly approaching the spectacular figure of 5 per cent of the gross national product. This compelling desire to have bigger and/or better homes, he informed the group, as well as the favorable economic situation of the typical family appears to be rather secondary in determining housing demands compared to the sheer availability of mortgage money.

Next, Dr. Collins asked the bankers to join him in a quantitative look at what their industry faces in the 1960's in terms of the need for and the supply of residential mortgage funds. This quantitative forward look of Dr. Collins, was prefaced by three important assumptions. These assumptions were:

1. That the first half of the new decade would generate an average annual demand for 1.3 million nonfarm starts, while the second 5 years of the new decade would generate an average annual demand of 1.5 million nonfarm starts.

2. That housing costs could be kept within bounds.

3. That there would be a continuation of housing upgrading.

Based on these assumptions, Collins felt it was reasonable to expect new residential housing demands to average roughly $22 billion annually in the first half of the 1960's and at least $26 or perhaps $27 billion annually in the second half. Thus, Dr. Collins saw total residential construction for the new decade ranging from $235 to $250 billion. Although he felt the pay-off on existing mortgages would provide an important amount of funds to meet these new demands, he could foresee a need for roughly $144 billion of additional mortgage funds for the new decade.

Turning next to the supply side of the picture, Dr. Collins talked about personal savings as the basic source for mortgage funds.

"Despite wide fluctuations in personal savings and despite a considerable cyclical instability of savings, there is a certain long-term stability in the average savings-income ratio," Dr. Collins contended. To support this contention, be called attention to the general tendency to save between 4 and 8 per cent of income in spite of the fact that at any given moment the family saves at a different rate.

Based on this tendency, we can reasonably expect the volume of personal savings to grow somewhat apace with the growth of the gross national product, according to Dr. Collins.

Thus, if the growth of the GNP in 1958 dollars should reach an expected figure of about \$575 billion by 1965 and roughly \$700 billion by 1970 with a ratio of personal savings to disposable income averaging around 7 per cent there will be an approximate total increase of \$193 billion of funds flowing to the savings pool of the big four mortgage-lending institutions, Collins predicted. Only a part of this \$193-billion increase will fall into the residential mortgage market to cover the \$144-billion estimated mortgage credit requirements. Dr. Collins regards this as an uncomfortably thin margin which portends ill for the availability of residential mortgage credit through the next decade.

In order to fully provide the \$144 billion needed for residential mortgage credit, 79 per cent plus of the indicated total increase in the savings pool would be needed, Dr. Collins said. He regards this as out of the question since only one of the institutional lenders on mortgages, namely, the savings and loan associations, can be expected to allocate as much as 80 per cent of its net increase in savings inflow to the residential mortgage market of the 1960's.

Dr. Collins then pointed out to the group another trend which can, if continued and intensified, greatly multiply the credit stringency problems of the mortgage banking industry. This trend is the seeming disposition on the part of individual savers to shift more and more from institutionalized investment to direct investment. Any substantial shift to direct individual investment in securities will have very significant effects on our capital market, on our interest rate structure, and on the availability of institutionalized savings to the residential mortgage market, Dr. Collins indicated.

During 1960, life insurance companies, commercial banks and mutual savings banks are not likely to sharply increase their conventional lending. Consequently, he does not go along with the forecasts of a minimal decline of 100,000 starts or so for the year. Rather, Collins predicts a probable decline in starts of about 200,000 and feels it will be difficult to start more than 1,150,000 units unless, in a political gesture, the Congress decides to "fix up" the depressed housing industry.

Since mortgage money from the traditional sources will in all probability be in short supply during the decade of the 60's, Dr. Collins said, the only rational and logical way out of the situation is to tap new sources of savings. With this in mind, he proposed an intense cultivation, by the mortgage bankers, of personal trusts, casualty marine insurance companies, credit unions, pension funds, and other miscellaneous types of institutions that do possess large aggregations of assets. Successful cultivation of these untapped assets and the use of various devices to lure additional personal savings into the mortgage market will help clear the otherwise stormy skies ahead, Dr. Collins concluded.

THE SINGLE AUDIT

(from page 22)

servicing agents who really need it and that our efforts will then be confined to something more productive than heretofore when we were trying to audit all servicing agents regularly.

The point might be made that the certificate we shall receive from the CPA is not in sufficient detail. For example, some investors feel that the CPA should confirm principal balances and instalment due dates directly with the borrowers. Some feel that the CPA should carefully examine escrow disbursement checks and particularly note endorsements for irregularities. By the same token, they feel that disbursements from escrow accounts for large amounts should be questioned as to purpose where the payee is someone other than the FHA, a tax authority, an insurance agency or a similar type of payee. We would agree that these steps are desirable in certain instances but we doubt the necessity of incorporating these procedures in every audit. It seems to us the auditor could determine in each case whether procedures of this particular type should be included. Naturally, his decision would be based upon what develops in connection with the other phases of the audit.

There are also those who feel that the CPA should check the sufficiency of the monthly escrow deposits. In analyzing that suggestion, we reached the conclusion that the servicing agent is just an anxious, if not more so, as we are to collect enough escrow funds. If he does not, it will cause trouble for him at a later date when the time element is of paramount importance. Just a few cases of this type should cause the intelligent servicing agent to establish procedures to avoid the recurrence of insufficient escrow deposits.

Finally, there are those who take the position that the CPA should carefully study the systems and procedures used by a servicing agent and certify as to any deficiencies in those procedures. It seems to us that this is not the subject of an annual audit but can be done better and more efficiently by the investor in his regular contacts with the servicing agent. The investor is in daily contact with his servicing agent and is in position to note what procedures are being used and is in position to offer suggestions. The investor sees the results of the systems of that servicing agent and knows whether they are working well and what weaknesses, if any, exist. As these weaknesses appear, the servicing agent will be told about it. As stated above, the ultimate results are what really count.

In the final analysis, this whole subject must be analyzed based upon the degree of confidence the investor has in his servicing agent. An investor should not appoint nor should he retain a servicing agent unless he has absolute confidence in the management of the servicer. The investor must assume that the management of the servicer wants to do just as good as he possibly can in running his business. The reputation of the management is at stake. The careers of those involved are at stake. That business represents the life's work of those who own and operate the mortgage servicing business. The success of the firm will redound to the personal benefit of the owner and management.

In an endeavor to make his business successful, the management of the servicing agent will naturally wish to have capable personnel in which they have utmost confidence. This management will set up the best procedures they can devise to avoid all possible pitfalls. The management will hire good CPAs to advise, consult and

audit and, finally, will protect itself by a fidelity bond covering all its employees. Having done this, it is to be assumed that, in some rare instances, there will be defalcations but, if the bond is adequate, this should not affect the solvency of the servicer. Keep in mind that the servicer knows that if he does not account to the investors for every penny of their money, the fruits of his life's work will vanish overnight. Therefore, we must start with the premise that the management of the servicing agent is much more interested than we are in their doing a good job and we must assume that the management is taking every step to guard and protect the business.

Three factors influenced the company's decision

Finally, in the case of our company, we have a fidelity bond giving us over-all protection in connection with the operations of our servicing agents. We would hope that this bond would be sufficient to cover any rare loss where the final results of any defalcations would fall into our lap. This could not happen unless the fidelity bond carried by the servicing agent is insufficient and unless there are no other resources upon which the servicing agent could rely to make good his contract.

In reaching the decision to give this plan a fair trial, we were influenced mainly by three strong factors. First, we have a feeling of absolute confidence in our servicing agents. We know them personally and we appreciate that their desire is to do the best job possible. In the second place, in approximately 30 years of extensive mortgage activity, we have experienced no monetary loss because of a default on the part of a servicing agent. In the third place, our information is that there have been relatively few such losses throughout the entire mortgage industry. We realize we may have a loss tomorrow but there is some risk involved in every type of business transaction. There is no reason to expect that we can completely eliminate all risks in the relationships between the investor and the servicing agent. All we can do is to set up reasonable safeguards and attempt to apply them intelligently.

The real benefit will come when many adopt it

This whole subject deserves the very best attention of all investors and servicing agents alike. Certainly, we know that our plan is not the "last word." Surely, it can be refined and improved upon. At least, we feel that we are trying and that we have made a start. However, the benefits to the industry as a whole will never be realized until a standard procedure can be agreed upon by a majority of investors and servicing agents. When that day arrives, a great amount of time and effort will have been conserved and we shall have passed another milestone in the development of procedures in a business which plays an extremely important part in the economy of our nation.

Let's give the single audit a fair trial.

SERVICING TIPS

from the TOP

About mortgage loan servicing
Conducted by W. W. Dwire
Chairman, Servicing Committee

Get Rid of Useless Forms

A difficult problem for the mortgage banker is keeping his business records up to date. Many companies which Bob Murphy and I visit use forms that are either cumbersome or no longer necessary. The Systems and Procedures Department of T. J. Bettes Company, Houston, has started to solve this problem, as described in this article from the firm's magazine, The Mortgagee. A similar solution should be applicable to any company regardless of size. — J. G. Wasson.

FORMS Design and Control, in its broadest sense, can be defined as a system to provide the best forms, and only those necessary, for conducting the company's business. More fully stated the system (a) determines the need for each form and makes sure this need is fulfilled, (b) ascertains the most economical and desirable means of manufacturing the form, and (c) develops a standard practice for designing forms so that each form serves its purpose efficiently and effectively.

Thomas E. McDonald directed his staff to make an accurate appraisal of the present forms and printing methods and to recommend all changes that would improve departmental operations and save the company money. To complete this assignment a three part preliminary program was established. *First,* samples of all forms were collected. Three copies of each form were accumulated and placed in an individual file folder. The form number was typed on the outside and the folders were arranged in form number sequence within each department. *Second,* each form was analyzed with the applicable departmental personnel to determine its purpose. The information gathered on each form from the analysis was written on a Forms Data sheet. This sheet records the general purpose of the form, certain printing instructions, and file retention information on each form the company uses. This phase of the procedure is presently in progress.

Third, a preliminary review of all forms by function was made. From this review we can determine those forms that can be combined and single forms that will take the place of several. This step will be initiated after the first two have been completed.

This analysis will reduce the number of forms presently used. From this point the remaining forms will be reviewed to determine the most economical means of manufacture. We have a print shop that prints the vast majority of all company forms. It may be more desirable to have some of the more complicated forms printed with a commercial printer. Too, it may be advantageous to analyze other printing methods to determine if they would be more economical.

After all the reviews and surveys are completed, the system will become somewhat routine with a continual analysis of new and revised forms and a periodic review of all old forms. As new forms are requested, or when revisions to existing forms are requested, the Systems Department will review the new form or the change with the applicable department. After determining the necessity of the new form or change, we will utilize standard form design techniques so it will best perform its purpose. Old forms will be reviewed periodically to determine if they continue to serve the original purpose. If not they will be revised or deleted.

The tremendous impact of the Forms Design and Control program on clerical operations and costs may not be fully realized. According to one expert it takes an average of 11 complete forms to create one full time clerical job. Therefore the Systems Department will prepare a summary of its findings quarterly, reporting the number of forms designed, revised, reviewed, rejected and rendered obsolete.

Jacksonville Meeting

For MBA's coming Southern Mortgage Conference in Jacksonville several features almost entirely new in Association meetings have been arranged, with the result that those attending are going to get a packaged deal with the highest possible interest and well-timed to current thinking and conditions of the moment. Most important feature of the Conference will be some work-shop sessions of an how-to-do-it nature—the emphasis is on practical aspects of the business with a de-emphasis of the theories and predictions.

This is the first meeting that MBA has held in Jacksonville for several years. The local group has planned some appealing side events which, wrapped up with the program, should make Jacksonville one of the highlights of the Association's 1960 offerings.

The Conference will be at the Hotel Robert Meyer April 4 and 5. The opening morning session will feature two addresses:

G. D. Brooks, vice president-treasurer, The National Life and Accident Insurance Company, Nashville, speaking on "Other Investments Competing for the Mortgage Dollar"

Kilgore Macfarlane, Jr., president, Buffalo Savings Bank, Buffalo, New York, speaking on "A Savings Banker Looks at the Out-of-State Mortgage Market."

Presiding at the Conference will be George C. Dickerson, vice president, Stockton, Whatley, Davin & Company, Jacksonville, who also has been chairman of the Jacksonville meeting and has been in charge of arrangements. On the first day there will be a luncheon for all attending, where Brown L. Whatley, past president of MBA and chairman of Stockton, Whatley, Davin & Company, Jacksonville, will preside. Capt. Eddie Rickenbacker will speak.

That afternoon the workshop sessions will begin, starting at 2:00 p.m., with the complete program repeated at 3:30 p.m. to enable all at the meeting to cover at least two sessions. The subjects and the participants are:

"Duties of Servicing Agent and Investor," co-moderators, L. K. Horn, secretary-treasurer, Lon Worth Crow Company, Miami; O. E. Rollings, Jr., director of mortgage servicing, Liberty National Life Insurance Company, Birmingham and host, Wilson Munnerlyn, executive vice president, Kirbo, Mills & McAlpin, Inc., Jacksonville;

"Planning and Financing Commercial Loans—Shopping Centers," co-moderators, Frank R. Shugrue, second vice president, Bankers Life Insurance Company of Nebraska, Lincoln; George M. Brady, Jr., vice president, James W. Rouse & Company, Inc., Washington, D. C.; and host, Maurice D. Alpert, assistant vice president, Stockton, Whatley, Davin & Company, Jacksonville;

"A Package Job for Builder-Clients" — Land Improvements to Permanent Financing," co-moderators, James M. Wooten, vice president, T. J. Bettes Company, Dallas; Jere M. Mills, president, Georgia Securities Investment Corporation, Atlanta; and host, Herbert Spier, vice president, Charles E. Commander & Company, Jacksonville.

On the second morning the day's activities will begin with a breakfast meeting sponsored by YMAC, with

You'll Hear


Capt. Rickenbacker


Frank Shugrue


Samuel Neel


Arthur Viner


Geo. Dickerson


G. D. Brooks


Raymond Mason


John Gilliland


L. K. Horn


A. Bookstaver

John C. Hall, Jr., vice chairman of MBA Young Men's Activities Committee and vice president, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, presiding. The speaker will be Raymond K. Mason, chairman, Mason Mortgage Company, Jacksonville and president, Beach Federal Savings & Loan Association. His subject will be "Diversification in Business."

The second morning session is a full one and will open with an address by B. B. Bass, president of the Mortgage Bankers Association of America and president, American Mortgage and Investment Company, Oklahoma City, on "Developments in the Mortgage Market," with John A. Gilliland, executive vice president, Knight, Orr and Company, Jacksonville, presiding.

Then follows a panel discussion moderated by MBA General Counsel Samuel E. Neel on "New Sources of Investment for Mortgage Loans." Participants will include Arthur W. Viner, president, Investors Central Management Corporation, New York City; Raymond T. O'Keefe, vice president, The Chase Manhattan Bank, New York; Alexander Bookstaver, controller, International Ladies' Garment Workers' Union, New York and Henry W. Wickenhiser, vice president, United States Trust Company, New York.

There will be considerable emphasis on the lighter side in Jacksonville with a reception for all those registered on Sunday night at the Florida Yacht Club. The hosts will be Insurance Company of the South, Jacksonville; Gulf Life Insurance Company, Jacksonville; The Title Guarantee Company, Baltimore; Louisville Title Insurance Company, Louisville and Title Insurance Company of Minnesota, Minneapolis. Following that there will be a buffet dinner-dance.

COMING UP IN MBA

And Again in Phoenix

Again in Phoenix is correct—that Far Western City has come to be a favorite meeting place for MBA. The dates are April 21-23 and the setting is the adjoining Jokake and Paradise Inns—actually near Scottsdale and about 12 miles from Phoenix. The two previous MBA meetings have been held there with great success, thanks to the brand of Western hospitality which is a specialty of the Phoenix mortgage fraternity. And as in Jacksonville, what's been prepared adds up to something that will be hard to beat.

The Phoenix Conference will open with addresses of welcome by both Governor Paul Fannin and Mayor Samuel Mardian of Phoenix. Initial talk of the day will be by the MBA President, B. B. Bass, followed by James O'Brien, vice president of The Chase Manhattan Bank, New York, speaking on "A Pension Trust Officer Looks at Mortgages from an Investment Viewpoint" and

"Life Insurance Companies' Programs for the 1960's in the Mortgage Field" by John P. Traynor, vice president for mortgage investments, The Mutual Life Insurance Company of New York.

The afternoon is open for golf and tours of the Phoenix area, followed by a reception that evening. Next morning the day's activities open with a breakfast meeting by MBA's YMAC group, followed by the next general session where memgers will hear—

Dr. Leo Grebler, professor of real estate and urban land economics and chairman, real estate research program, graduate School of Business Administration of UCLA, Los Angeles, speaking on "Perplexities of the Secondary Mortgage Market"

C. Canby Balderston, vice chairman, The Federal Reserve Board, Washington, D. C., speaking on "Savings and Its Claimants"; and

John deLaittre, president, National Association of Mutual Savings Banks and president of The Farmers & Mechanics Savings Bank of Minneapolis.

The second afternoon is likewise open for golf and other activities, but at noon there will be a luncheon for the ladies attending the Conference.

The third Conference session will be Saturday morning with J. B. Shea, vice president of The Valley National Bank of Phoenix, Phoenix, presiding and will have to do with the government side of mortgage lending. Speakers will include MBA General Counsel Samuel E. Neel, Washington, D. C.;

J. Stanley Baughman, president, Federal National Mortgage Association, Washington, D. C.;

Harry E. Johnson, director, Cooperative Housing Division, Federal Housing Administration, Washington, D. C.; and

Edwin G. Callahan, deputy director, legal division, Federal Housing Administration, Washington, D. C.

That noon there will be a luncheon for all members and wives attending the Conference. S. P. Applewhite, president of Applewhite Mortgage and Investment Company, Phoenix, will preside and Congressman John J. Rhodes of Arizona will speak on "The Future of the West."

And as for the Jacksonville Conference, reservations for the Phoenix meeting should be made promptly. Members have received the complete program and other details and should act at once.

You'll Hear


Canby Balderston


John Traynor


J. B. Shea


John deLaittre


J. S. Baughman


S. P. Applewhite


E. P. Schumacher


Kenneth Brown


Ralph Bruneau


Leo Grebler

And Then New York

The fourth and last of MBA's 1960 series of Conferences and Clinics is the traditional Eastern Mortgage Conference in New York May 2 and 3. The locale is the usual meeting place, Hotel Commodore, and as usual there will be two morning sessions, with the afternoons open.

This is the MBA meeting that traditionally attracts the greatest investor attendance and no doubt the 1960 version of the Conference will follow the same pattern.

Among the speakers and the subjects they will talk about are:

B. B. Bass, president, Mortgage Bankers Association of America and president, American Mortgage and Investment Company, Oklahoma City speaking on "Recent Developments in the Mortgage Market."

The Hon. Albert Rains, Congressman from Alabama, speaking on "New Housing Legislation."

Charles E. Walker, assistant to the Secretary of the Treasury, Washington, D. C., speaking on "The Government Bond Situation."

Raymond T. O'Keefe, vice president, The Chase Manhattan Bank, New York, speaking on "Availability of Commercial Mortgage Money (including construction and warehouse money)."

Richard H. Wilson, financial vice president, State Mutual Life Assurance Company of America, Worcester, Mass., speaking on "Availability of Life Insurance Company Money."

Ernest P. Schumacher, president of the Schumacher Mortgage Company, Inc., Memphis and 1960 MBA Conference chairman, will open the Conference and Nathan T. Bascom, president, Worcester Mechanics Savings Bank, Worcester, Mass., who directed the Conference planning, will preside.

The first day the New York Mortgage Bankers Association will sponsor a luncheon with all attending the Conference invited — it has also become a tradition at the Eastern meeting. United States Senator Keating of New York will address the luncheon meeting.


Rep. Rains


Raymond O'Keefe

Other MBAs

James B. Smith Named Des Moines MBA Head

New officers in Des Moines MBA are Vice President, Charles Drees, assistant secretary, Iowa Securities Company; President, James B. Smith, regional manager, Northwestern Mutual Life Insurance Company, and Secretary, Jack King, Jr., assistant vice president, Des Moines Savings and Loan Association.

Vice President Tharpe Outlines New Plan of Mortgage Industry at Southern California MBA

The possibility that the greater future of the mortgage banking industry, which uses more new capital than any other in the country, might well follow a pattern of expansion and growth which would create great new lending institutions making their services and facilities available to far more people than at present was proposed by Robert Tharpe, MBA vice president, Atlanta, in addressing members of the Southern California MBA in Los Angeles.

Guy B. Mize

Vice President Tharpe took the occasion of his address to the group to propose, for the first time, an outline of an idea of the possibility of mortgage banking adopting a "new look." His plan, as he made clear, was by no means a formal and detailed proposal, but rather constituted the nucleus of an idea which he was setting forth for comments, suggestions and criticism.

In essence, it would call for "institutionalizing" the mortgage banking industry to the extent that it would be in a position to offer more services to more people than ever. He visualized it as a natural step similar to what has developed from the National Banking Act and the Home Loan Bank Act. It would call for a Federal Mortgage Banking Act which would build "from our present framework great new institutions that are worthy of the name 'mortgage banker,' with trust powers such as enjoyed by others and building mortgage banks with capital structures that will permit expansion and growth."

Under his proposal, Tharpe envisioned a new type of mortgage institution all over the nation with far more powers, broader scope of operations and one far better equipped to meet the demands of mortgage financing than is now the case.

"What would this XYZ Federal Mortgage Corporation be like? It would have many of the aspects of the secondary market part of the Federal National Mortgage Association, but with important differences. In effect it would be one of a number of private FNMA's, operating, however, directly in the market rather than through intermediaries. It would originate mortgages, hold mortgages, service mortgages, and trade in mortgages with other investors. It would have a broad base of private capital, supplemented by the issuance of debentures secured by a portfolio of insured and guaranteed mortgages. It would have fiduciary powers and responsibilities. It would be a new kind of investment company, comparable in many ways to the regulated investment companies in the securities field; and it should have tax treatment comparable to these companies, with special recognition of the need to maintain reserves to assure fulfillment of the obligations it creates.

"What would such a mortgage corporation be able to accomplish? It would be able to provide securities in the form of shares or debentures that would appeal to the individual saver who wishes to invest directly. It would be able to give the institutional investor the choice of debentures secured by mortgages as well as the mortgages themselves and broaden the market among pension funds, endowments, and other trust funds."

Tharpe pictured his plan as one which would stimulate savings and investment but which, initially, would require a measure of government sponsorship.

"It is even conceivable that the debentures themselves could be insured by FHA," he said. "Of course, it would be nice if a simple way could be found to avoid this government support. However, in this case, as in the case of competing with institutions with a different tax treatment, we will need competitive insurance treatment. To do so would require some changes, surely; and it would result in some additional exposure. But this would not be nearly as radical as was the creation of FDIC and other facilities for insuring savings. Rather than suggesting, as some have done, that the cost of FHA insurance be reduced, maybe the insurance premium should remain as it is, and maybe the thinking should be in terms of FHA accepting the bigger risk. Would this not broaden the market? Making the FHA even more attractive to the investor and channeling more funds into the program is the problem; the problem is not the FHA insurance rate. Your regular insurance companies, before reducing the premiums, broaden the coverage —then reduce rates if justified.

"The triangle within which we in mortgage banking operate would disappear. We would still serve our same institutional investors, and we would be better servants of theirs just

The new officers: Left to right, S. H. Dolley, secretary; Robert Tharpe, MBA vice president; Guy B. Mize, president; Gordon Calder, retiring president; Stanley LeBon, treasurer, and J. R. Jones, vice president.

as we are better servants to insurance companies today because of having added the mutual savings banks to our operations. We will then have the doors open to other sources of funds, both individual and institutional. We would be, as I have said before, a stronger servant of the institutions and could help to even the flow of funds into the field of housing by using the real savings of the people and not have to resort to the Federal Treasury."

Guy B. Mize, president of the Marble Co. of Pasadena, was elected president of the Southern California MBA at the meeting.

J. R. Jones, vice president, Security-First National Bank, is the new vice president; S. H. Dolley, vice president, Winter Mortgage Co., secretary, and Stanley LeBon, service officer, Metropolitan Mortgage Co., treasurer.

Newly elected directors are Gordon Calder, chairman, The Allison Co., and immediate past president; Floyd Cerini, executive vice president, Security Title Insurance Co.; Walter Clark, district manager, Pacific Mutual Life Insurance Co.; John F. Gensley, Jr., vice president, Bank of America; Thomas Herbert, treasurer, Western Mortgage Corp.; George Hull, vice president, Wallace Moir Co., and Hal Whittle, administrative vice president and secretary, H. F. Whittle Investment Co.

Albert Drawbert Is Head in Minneapolis

Albert A. Drawbert, manager, mortgage loan department, Northwestern National Life Insurance Co., has been elected president of the Minneapolis MBA. Other new officers for 1960 and the posts to which they have been elected are vice president, Kenneth C. Young, vice president, Eberhardt Company; secretary, Floyd Feikema, assistant vice president, Schumacher Mortgage Co., Inc.; and treasurer, C. Addison Dahl, president, Northwestern National Bank of Bloomington—Richfield.

Albert Drawbert

Three new members were added to the board for two-year terms. They are Arthur J. Helland, assistant vice president, Farmers & Mechanics Savings Bank; Harvey M. Kuhnley, assistant vice president, Twin City Federal Savings & Loan Association and Harry E. Porter, vice president, The Towle Company.

▶ **PORTLAND:** Ralph M. Holmes, president, Realty Loan Corporation, Portland, Oregon, is the newly elected president of the Portland MBA. Serving with him, as vice president, will be Phil Hammond, U. S. National Bank; and, as secretary-treasurer, John Carlson, Mortgage Finance Corporation.

Carolinas MBA Name Follin as President

Marion G. Follin, vice president of Pilot Life Insurance Company, Greensboro, N. C., was elected president of the MBA of the Carolinas at its annual meeting in the Fort Sumter Hotel, Charleston, S. C. More than 175 attended the Convention and MBA General Counsel Samuel E. Neel was the principal speaker.

Other officers elected were Julian Hennig, Jr., vice president, August Kohn Company, Columbia, S. C., vice president; Ike C. Lowe, secretary-treasurer, McDonald Mortgage Company, Inc., Charlotte, N. C., vice president and B. C. Fowler, vice president, Idol-Green Company, High Point, N. C., secretary-treasurer.

Newly elected directors were Furman H. Bodenheimer, assistant vice president, Citizens Bank & Trust Company, Raleigh, N. C.; R. C. Rapp, Cameron-Brown Company, Greensboro, N. C. and Walter H. Andrews, vice president, Stevenson-Zimmerman Company, North Charleston, S. C.

Some of the Carolinas MBA new officers: Mr. Fowler; Mr. Lowe and Mr. Hennig. Newly-elected president is Marion G. Follin. Below, the group visiting Old Fort Sumter, which is being restored as a national monument.

▶ **COLUMBUS:** New president of the Columbus MBA is Thomas K. Hartzler, Jr., president of the Hartzler Mortgage Company. Hubbard Sherry, vice president, The Central Ohio First Mortgage Company, is the new vice president; and Fred C. Pixley, assistant manager, mortgage loan department, The Midland Mutual Life Insurance Company, is the incoming secretary-treasurer.

Texas MBA Convention To Be in Galveston

Officials of life companies, savings banks and mortgage banking firms, plus representatives of Federal agencies in the housing field, will take part in the 44th annual Texas MBA convention. It starts Wednesday, May 11, and continues through Friday in Galveston. Convention headquarters will be in the Galvez Hotel, while the coastal city's famed Moody Center will be the scene of luncheons and dinner dances during the convention.

Robert W. Drye, Houston, Texas MBA president, will preside. M. J. Mittenthal of Dallas, TMBA vice president, is convention chairman with Travis Traylor, Houston, serving as co-chairman in planning the convention activities.

General business sessions will open Thursday morning with speakers including William F. Keesler, senior vice president of the First National Bank of Boston; Ames Gill of San Antonio, president, The Richard Gill Company; Samuel E. Neel of Washington, MBA general counsel; and Martin Harris of Austin, Texas MBA counsel.

Principal speaker at a men's luncheon May 12 will be B. B. Bass of Oklahoma City, president of the Mortgage Bankers Association of America. Wives of the convention delegates on May 12 are slated to attend a special luncheon for them in the famed Balinese Room, where Miss Cathy Bauby of Memphis, Tenn., will present a program of "Charm Tips for the Ladies."

The Friday morning business session will include talks by Morris D. Crawford, Jr., of New York, executive vice president and economist of The First National Bank in Dallas; and Thomas Lovejoy, Jr., of New York, president, The Manhattan Life Insurance Company.

Deane C. Davis, president of The National Life Insurance of Montpelier, will be the principal speaker at the Friday joint luncheon for convention delegates and their wives.

One of the highlights of the 44th annual Texas MBA convention will be an informal discussion between mortgage bankers, investors and representatives of VA, FHA, and FNMA. This portion of the program is being planned by the Young Men's Activities Committee of the Texas MBA, headed by G. R. Swantner, Jr., of Corpus Christi, committee chairman.

Presentation of the annual J. E. Foster Award to the person selected as Texas' outstanding mortgage banker during the preceding year will highlight a dinner and dance to be held at the Moody Center Thursday night, May 12.

An "Around the World in 80 Days" costume ball will follow a Moody Center dinner the night of May 13, Texas MBA President Drye has announced.

Bertrand Bendell New Cleveland MBA President

BERTRAND BENDELL HEADS CLEVELAND MBA: Bertrand W. Bendell is the new president of the Cleveland MBA. At the Association's annual meeting, members elected a new slate of officers, consisting of Harold G. Pratt, assistant vice president of Land Title Guarantee & Trust Company, secretary; Thomas M. McCulloch, vice president of the Union Commerce Bank and retiring president; and Mr. Bendell who is president of Bendell-Lafler, Inc.

Keith Lister, president, Lister Investment Company, was elected president of the San Diego MBA to succeed Jack Barnett, vice president of McMillan Mortgage Company. Other officers are Malin Burnham, John Burnham and Company, vice president; Melvin E. Knoll, Coldwell Company, secretary; Keith W. Clague, San Diego Trust & Savings Bank, treasurer; and Robert L. Cobb, T. J. Bettes Company, director at large.

At the installation Dave Schurch, chief counsel of the Union Title Insurance Company, presented the incoming and outgoing presidents with gavels, one for use in office, and the other a miniature gavel mounted on a plaque commemorative of past service.

YMAC | *A department sponsored by the Young Men's Activities Committee, Edward C. Greene, Dallas, Chairman.*

A MAN YOU SHOULD KNOW

the Commercial Banker

Recently in this YMAC corner, a committee member made some observations about what he termed a Forgotten Man as far as most mortgage bankers are concerned — the real estate salesman, a man who contributes much to the mortgage field yet gets very little credit for it. The reminder was timely and appropriate. So is this one — a reminder that the commercial banker is also someone the mortgage banker should know well, someone he should cultivate with care and patience.

WHEN a mortgage man analyzes the prospects of growth during any period, several fundamental sources are considered. These are builders, real estate agents, architects, surveyors, land developers and prominent closing attorneys. While all of these sources are valuable and should not be minimized, one tremendously important source — often overlooked —is our friend the commercial banker. In the years ahead, the mortgage banker will find it to his advantage to cultivate this association. More often than any of us realize, builders and developers seek advice from the commercial banker with whom they do business. His judgment and influence are respected. What better publicity could a mortgage banker receive than recognition by the commercial banker that his knowledge of the mortgage business is relied upon in arriving at important decisions. Such recognition is an asset of inestimable value. I am not unaware that our ability must be demonstrated over a long period of time. There are several areas of operation with a commercial banker which deserve constant review by top management. To suggest a few:

1. The proper preparation of loan documents for warehousing. Does the file contain all the bank needs to satisfy the requirements of an examiner? Are there always items to be furnished later increasing the number of times a file must be handled, and thereby increasing costs? Are the instructions to the bank for handling the papers complete? Are we constantly seeking ways of improving forms and procedure with the bank?

2. Do we spend time with our banker discussing mutual problems? Do we take advantage of his knowledge of Federal Reserve action, availability of funds in the short- and long-term markets, consumer credit demands locally and business loans by leading banks throughout the country?

3. Being conscious of rising interest rates, do we suggest that our own rate be reviewed in the light of current conditions? (We may as well be realistic at this point. If the rate of FHA's and conventionals is increased and local demand for funds is strong, our rate is going to be affected, all other things being considered. If we see this coming on, why not move first and suggest a review of the rate.)

4. Have we demonstrated over a long number of years, our ability to place uncommitted loans regardless of market conditions at any particular time? This in large measure will reflect on our judgment and ability. When the "going gets rough" can we place our loans without seriously affecting our capital position?

All of these factors have a direct bearing on establishing a good relationship between the commercial banker and the mortgage banker. The confidence gained must be maintained. You should keep your banker informed of new programs of the FHA and of changes in existing programs. Advise him of changes in the ratio of loan to value on FHA's and conventionals. Supply him with information on home-building activity in the local area. Keep abreast of all building activity in your community and share the information with him. Be a source of accurate information for all that relates to our industry. Over the years a reputation can be established so that your counsel will be sought after by bankers and their finance committees. Such reputation

By RAYMOND T. BOSWELL

Vice President, Blaylock Investment Corporation, Shreveport

will result in the increase of your business and establish your professional ability.

The anticipated demand for funds in the "Soaring Sixties" may cause unsteadiness in the money market not heretofore experienced. This could mean periods of long duration when mortgage funds are not readily available. Such a disruption in business could seriously affect the builders who charge you with the responsibility of placing their loans. A curtailment of activity may be necessary but a complete "drying up" of mortgage money could be damaging. In order to ride through such a period in the economy, warehousing a large volume of uncommitted loans may be a necessity. A risk to be sure. But we are not without some assistance here since our Association through its clinics and conferences helps us to understand something of what the future holds. The mortgage banker who has prepared wisely for such an eventuality may fare well. Now is a good time to begin preparation.

"The Road" Is Rolling

Once the distribution wheels began to turn full steam, showings of "The Road to Better Living," MBA's motion picture about the role of the mortgage banker in the economy, started to accelerate and now people just about everywhere are seeing it. As of now, more than 700 showings have been arranged before clubs, organizations, schools and all sorts of worthwhile gatherings. More than 60 telecasts have been booked. The picture is off to a good start but there are still hundreds of bookings to go before the film achieves the total exposure planned for it. Members can help in encouraging local groups in their own communities to book it—but the most important thing members could do is get a print for themselves *(coupon below)* and undertake some distribution on their own.

FILM ORDER BLANK

Department of Public Relations,
Mortgage Bankers Association
111 West Washington St.
Chicago 2, Illinois

Please send me ________ prints of the film, "The Road to Better Living," at $150 per print. My check payable to MBA is attached.

Name____________________ Title________

Street______________________________

City______________ Zone____ State______

Profiles of People at work in MBA

WALLACE MOIR is president of his own mortgage firm, the Wallace Moir Company in Beverly Hills, California. He, also, is a past president of this Association—a man whose thinking and influence continue to be felt in the shaping of MBA affairs. A graduate of Stanford University, it was during his term as MBA President (1954-55) that the MBA School of Mortgage Banking was first introduced on that campus. Within the industry to which he is so devoted, he has long pioneered for a return to what he terms the "lost art" of sound underwriting in mortgage financing. Likewise a staunch advocate of the "prudent-man-rule" approach in the establishing of loan-to-value ratios for conventional lending, he has written extensively on each of these topics—his by-line appearing frequently in these pages. A past president of the Economic Round Table of Los Angeles, he has served, too, as chairman of the life insurance committee of that city's Chamber of Commerce—the only mortgage banker ever to serve in that capacity. Something of a paradox, Wally—an admittedly shy introvert—is a much sought-after master of ceremonies; a witty story-teller and practical jokester, he is also a serious student of the Bible. He is one of the most articulate speakers in MBA and a man of strong convictions who never hesitates to express an opinion or introduce an idea, however controversial. A long-time member of the MBA Board of Governors, his straight-from-the-shoulder approach has proved an enlivening factor at many a proceeding. Active through the years on many, many MBA committees, he serves this year as chairman of the Past Presidents Advisory Council.

ERNEST P. SCHUMACHER, as president of the Schumacher Mortgage Company, Inc. in Memphis, heads a firm which has helped make mortgage history in this country. Founded in 1932 in the crashing days of the depression, this company—as United Service and Research, Inc. (a name carried until 1958)—did much, through its constructive dealings with the problems of American farming, to stabilize the seriously unsettled conditions of those years. And, when Eastern banks, unable to collect on delinquent farm mortgages in the Midwest, turned over to the firm more than $15 million in problem cases, not one of these banks failed; in fact, most of them made money on their investments, and many farmers, too, came out well. With a quarter century of experience in the mortgage loan business, Ernie likewise has behind him a solid background in real estate appraising and as a general real estate broker. A senior member of the Society of Residential Appraisers, he has held major offices at both the local and national levels and is serving currently on its Board of Governors. Newly elected chairman of the Finance Committee of the American Institute of Real Estate Appraisers, he is a member of the Mortgage Council of the National Association of Real Estate Boards. Twice president of both the Memphis Real Estate Board and the Memphis MBA, he was chairman last year of MBA's Southern Mortgage Conference. This year he has facing him a full and busy travel schedule as chairman of this Association's all-important Conference Committee.

People : Places : Events :

Thomas E. McDonald, vice president of T. J. Bettes Company, Houston, has been elected a director of the Continental Bank and Trust Company of that City.

John J. Harrington, former senior vice president of Beneficial Mutual Savings Bank, Philadelphia, who retired after 27 years' of active service, has opened offices as a mortgage and real estate consultant. He will continue to serve as a member of the board of managers of the Beneficial.

Murrer and Phillips, Inc., Pittsburgh, announced appointment of **William G. Jacobs** to succeed **Edison C. Speer** as manager of the company's commercial mortgage department.

Mr. Speer has retired after serving as mortgage manager for eight years.

Announcement also has been made of the transfer of **John C. Phillips Jr.** from the company's sales department to the mortgage department.

Charles A. Cunningham has been promoted from secretary to vice president and secretary of Title Insurance Company of Mobile and **Harold G. Goubil** has been promoted from trust officer to executive vice president of the Company.

Home Life Insurance Company, New York, announced the advancement of **Donald R. Morganson** to manager of mortgages and real estate in the company's mortgage department. Two other members of the department, **Edmund J. Jacobs** and **David S. McAdam,** also have been advanced to mortgage supervisor and mortgage field supervisor, respectively.

D. R. Morganson

Mr. Morganson became associated with Home Life in 1941 and handled legal matters in the mortgage and real estate areas. He was appointed mortgage attorney in 1946, and in 1950 he was transferred to the company's law department and made an officer with the title of assistant counsel. In 1958 he was also appointed assistant secretary.

Mr. Jacobs joined the company in the mortgages and real estate department in 1947 and was appointed mortgage field supervisor in 1953.

Mr. McAdam joined Home Life in 1953 and, after two years of military service, returned to the mortgages and real estate department. He was named mortgage field assistant in October, 1959.

Ferd Kramer, president of Draper and Kramer, Inc., Chicago, has been named to serve on the Architectural Advisory Panel created by the San

"The Road to Better Living" Plays Akron

This is the type of effective circulation the MBA motion picture, "The Road to Better Living," is getting by those member firms which see in it a vehicle for accomplishing some desired objectives. In Akron, The First Akron Corporation made an event of its premiere showing of the film.

More than five hundred people in Akron saw it when it was premiered in that city. The showing was held at the First Akron Corporation at a private party where investors, real estate men, architects, members of the press, etc. were invited to see the film.

Next day it was shown by First Akron's President John B. Hunter at the Society of Residential Appraisers. A few days later it was featured at the meeting of the Akron Board of Realtors. Mr. Hunter was again in charge of the program.

Public reaction to the film was very favorable.

At the First Akron premiere showing: above, left, William F. Esch, Northwestern Mutual Life Insurance Company; John B. Hunter, president of First Akron; Harlan T. Chapman, vice president; and Mrs. Esch. Right, Mrs. Maud R. Motz, vice president of First Akron; Mr. Hunter; Mr. and Mrs. H. W. Hitchcock, New York Life Insurance Company; and Mrs. Hunter.

Francisco Redevelopment Agency to help in the development proposals for the first structures to be built in that City's Golden Gateway Project.

H. F. Rice, formerly with the Perpetual Savings & Loan Association, heads the new branch office which General Mortgage Corporation of Iowa has opened in Cedar Rapids, **E. R. Haley,** president, announced.

Malin Burnham has been elected president of John Burnham & Co. in San Diego.

Yancey L. Shaver has been named manager of the commercial loan department of Tharpe & Brooks, Inc., Atlanta.

Thomas & Hill, Inc., Charleston, West Virginia, announced the acquisition of a substantial interest in its capital structure by Pease Woodwork Company, Inc., Hamilton, Ohio. Thomas & Hill has offices in Parkersburg, Wheeling, Fairmont, West Virginia; Martinsville, Virginia; Cincinnati, Hamilton and Sandusky, Ohio; Troy, North Carolina; Champaign, Illinois; Louisville, Kentucky, and Iowa City, Iowa. Pease, one of the nation's oldest and largest home manufacturers, has its factory and offices in Hamilton, Ohio.

James V. Rice, Cincinnati, Ohio, sales manager and a director of Pease Woodwork Company, has been elected to the board of directors of Thomas & Hill, Inc. He is in charge of the mortgage firm's Hamilton, Ohio office.

John J. Flynn and **A. W. Graves** have been elected to the board of Inland Mortgage Corporation, Piqua, Ohio. **Peter R. Thompson** was made a vice president.

Two new executive assignments were announced by **Irving Rose,** president, Advance Mortgage Corp. **D. Jerome Donohue,** an assistant vice president, has been assigned to Chicago from the Detroit office. **William E. Blackwell** was named Detroit-area commercial mortgage manager. Previously, Blackwell was in charge of origination of conventional residential loans for the Detroit area.

What They're Doing About Usury

We may be seeing more new legislation like the bill passed by the Virginia House, which provides that the usury laws of the State do not apply to FHA or VA loans. Thus, action has been taken of an affirmative nature to avoid the disruption which has appeared in several states where usury laws have come into conflict with total FHA charges.

The State of West Virginia also acted fast to clarify the status of FHA loans under the state's usury laws. The legislature took action in February and, for all practical purposes, the bill passed resolves the usury question in that State.

Above, Gov. Cecil H. Underwood signing the new act. Shown: Col. F. Guy Ash, Chairman of the State FHA Advisory Committee and vice president, Mortgage Exchange Corporation, and two members of a subcommittee who worked with him; R. E. Plott, vice president, Kanawha Valley Bank, and Philip H. Hill, president, Thomas & Hill, Inc.

The new legislation provides that no law limiting interest rates shall apply to loans or investments made by any mortgagee approved by FHA or made by any other lending and investing institution for the purpose of financing alterations, repairs, and improvements upon real property or for the purpose of financing the construction or purchase of residential or commercial properties or the re-financing of mortgages, and all loans and investments for any such purposes, and whether or not insured by FHA, may bear such rate of interest and such charges, or be discounted at such rate, as is permitted under the National Housing Act and the regulations promulgated from time to time by FHA.

(Not long ago West Virginia also acted promptly to pass "doing business" legislation to erase any doubts regarding licensing by outside investors buying loans in that State.)

In Tennessee, as previously reported, the 5¾ per cent FHA rate, along with the ½ of 1 per cent insurance premium, created a situation where no one knew whether it conflicted with the state's usury law. A friendly suit was begun, tried in the Chancery Court of Shelby County and has now gone to the Supreme Court, with the ruling so far being that the insurance premium is not interest.

In Maryland, also previously reported, the matter took a different turn. There the Attorney General ruled that the ½ of 1 per cent service charge on 203(i) loans, when added to the interest rate, violated the usury laws. Further clarification can, no doubt, be expected. If interest rates should decline as there were some indications early in January they might do, this problem could resolve itself; but it is still a problem, created by the sharp climb in interest rates. What is needed is a firm clarification of this matter, so that it will not come back to plague lending in the future.